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LOMBARD
Facing up to the ethnic issue
Page 17

World News

Helicopter plunges into North Sea, killing six

Six oil workers were killed when a helicopter carrying 13 people crashed in the North Sea. The S61 helicopter was heading for an offshore landing area serving Shell Expro's Brent oilfield when it went down 115 miles north-east of the Shetland Islands.

British International Helicopters said seven men had been rescued. The search went on for hours but was hampered by *fog*. Page 8

Zambia curfew ends

Zambian President Kenneth Kaunda said he would release all political prisoners and lift a curfew imposed on Lusaka province after riots last month. But he postponed a referendum on multi-party rule. Page 4

EC olive branch

The European Commission proposed a new directive on working hours, saying governments could leave its implementation to employers and unions. It was seen as an olive branch to countries such as Britain and Denmark.

Boesak quits church

South African clergyman and anti-apartheid veteran Allan Boesak, 45, resigned from his church and said he had left his wife for the niece of a white former cabinet minister. Mandela admission, Page 4

Eastern accused

Eastern Airlines, the embattled US carrier operating under protection of a bankruptcy court, and several of its managers have been indicted on charges of falsification of aircraft maintenance records over a four-year period. Page 6

Drought hits France

Experts said a heatwave in south-west France is evaporating water supplies as quickly as in the Sahara desert. Calvados, in the north, one of France's wettest districts, banned garden hoses.

Haiti tense

Political tension is rising in Haiti after clashes which followed the government's failure to arrest two former government ministers who returned from exile. Page 6

Israel halts flights

Israel's Transport Ministry ordered the suspension of flights by state-owned El Al airlines to Stockholm, saying new airport security measures there were inadequate.

German job threat

A million of East Germany's 2.2m bureaucrats should lose their jobs after unification, a representative of West Germany's civil servants said. Vote for Berlin and election differences, Page 2

Fiji poll pledge

Fijian President Ratu Sir Penaia Ganilau said he had promulgated a new constitution which guarantees political dominance for ethnic Fijians. He promised to hold elections before the end of next year. Page 4

New Archbishop

Bishop George Leonard Carey of Bath and Wells will succeed Dr Robert Runcie as Archbishop of Canterbury, spiritual head of the Church of England and 70m Anglicans around the world. Page 8

Toyota boss dies

Tsutomu Ohshima, vice-chairman of Toyota, who was instrumental in pushing the company into building factories in the US and Europe, died in Tokyo aged 66.

Christmas in July

Sixty-two Father Christmases came to Copenhagen in their beards and red suits despite the summer temperatures to have Christmas lunch and swap festive stories. The occasion was the 27th Santa Claus World Congress.

Business Summary

European competition hit by moves towards 1992

THE prospect of the Single Market has led to a rush of mergers among Europe's big industrial companies, which in some sectors may have damaged competition, according to a European Commission report. Page 18

MARKETS: Most European bourses began well but later slipped from their day's highs, with oil stocks continuing to focus attention in several markets. The Nikkei closed practically unchanged after a day of listless trading which saw currency concerns take over from interest rate jitters. Back Page, Section II

DIGITAL Equipment reported its first ever quarterly loss after taking a $400m charge to cover the costs of a major workforce reduction and consolidation of facilities. The company said it would eliminate 5,000 to 6,000 jobs. Digital employs about 124,000 people worldwide. Page 19

COMECON members must pay for their Soviet imports with hard currency under a decree issued by President Mikhail Gorbachev to the Soviet Government with effect from January 1. Page 18

ALGERIA's difficulties in servicing its $25.3bn foreign debt and importing adequate food and raw and semi-finished materials are their most acute since independence. Page 4

BRAZIL introduces a punitive tax on short-term investments today as a further move by President Fernando Collor to suppress liquidity and curb inflation. Page 6.

DEVELOPING countries will today make a formal protest over the lack of progress at this week's meeting of the Uruguay Round Trade Negotiations Committee. Page 3

COMMERZBANK chief executive Mr Walter Seipp, who heads West Germany's third largest commercial bank, spoke out against the "competitive distortions" which he said had arisen with the introduction of western-style banking into East Germany. Page 24

US durable goods orders fell sharply in June, dropping 3.2 per cent, the Census Bureau reported. Page 6

DU PONT, largest US chemicals company, reported modestly lower second quarter earnings, reflecting the weakness of the world chemicals sector. Page 22

US Treasury bonds moved marginally higher after a weaker than expected durable goods orders release. Page 23

BANK Vontobel, one of Switzerland's most prestigious private banks, recommended Jacobs Suchard's public shareholders to reject a takeover bid worth SFr3.67bn ($2.64bn) from Philip Morris of the US. Page 19

SANDOZ, Swiss chemicals company, has been given the go-ahead by the Irish planning authorities for an I£170m ($277m) pharmaceuticals factory at Ringaskiddy, County Cork, despite protests from environmentalists and residents. Page 2

AVON Products, world's biggest manufacturer of cosmetics and toiletries which has deflected a series of takeover advances in the past 15 months, reported strong growth in second-quarter earnings, in line with analysts' expectations. Page 22

AEGIS, communications group, strengthened its grip on Europe's media planning and buying business with the proposed acquisition for an initial £9.3m ($16.9m) of Media Holdings International, Scandinavia's largest media buying company. Page 19

ARIANESPACE chairman Frederic D'allest is resigning to take up a new post with the French company Matra.

US, Soviet Union near agreement to end Afghan war

By Lionel Barber in Washington

THE US and the Soviet Union are close to an agreement on ending the 12-year civil war in Afghanistan, senior US officials said in Washington yesterday.

Mr James Baker, US Secretary of State, will meet Mr Eduard Shevardnadze, Soviet Foreign Minister, on August 1-2 in Irkutsk, central Siberia, in an effort to clear the last obstacles to a ceasefire and an eventual political settlement.

The outline agreement would include a cut-off by Washington and Moscow of arms deliveries to the opposing sides, a ceasefire and a timetable for future elections. It is also expected to feature a continuing but diminished role for President Najibullah, the Soviet-backed leader in Kabul.

Mr Baker, who began a 12-day, four-nation trip to Asia yesterday, was said to be hopeful that an agreement was within reach. "The Soviets have hinted at a deal; they have not fleshed it out yet," a US official said. "The thread of a deal is going to be pursued by Baker in Irkutsk."

The impetus towards a ceasefire gained momentum this week when the Senate intelligence committee voted to reduce sharply the $300m in annual US military aid to the Mujihadeen, the Afghan resistance. Reports said funding was cut by about $100m.

Disillusion is growing among Republicans and Democrats about US covert military assistance to Third World clients seeking to overthrow communist regimes; a legacy of superpower rivalry in the 1970s and early 1980s.

The 18-month military stalemate inside Afghanistan has contributed to a sense of futility, particularly after the failure of the Mujahideen to topple the Kabul regime after the Soviet troop withdrawal in February last year.

Improved US-Soviet relations have further undermined resolve to fund the fighting which has devastated the country and sent more than 3m refugees fleeing to neighbouring Pakistan.

One of the chief obstacles to the resolution of the Afghan conflict has been what role, if any, Mr Najibullah would play in an interim government. In an important policy switch, US officials said the Soviets had apparently agreed to press Mr Najibullah to give up important levers of power such as control of the state security and propaganda apparatus.

The interim authority in Afghanistan, which would be supervised broadly by the UN and the Islamic Council, would also monitor the later elections.

Moscow in $5bn diamond agreement with De Beers

By Kenneth Gooding, Mining Correspondent, in London

DE BEERS, the South African group mining group, yesterday advanced a $1bn loan to the Soviet Union's diamond industry.

The Soviet Union's diamond stockpile will be shipped from the Moscow State Treasury to De Beers' Central Selling Organisation (CSO) in London to be held as collateral for the loan.

The Soviet Union, the world's second largest diamond producer in value terms, also signed an agreement, estimated to be worth $5bn, to sell its rough (uncut) gem diamonds exclusively for the next five years through the CSO.

The CSO has continued to market Soviet diamonds which have reached it through a tortuous trail of intermediaries since their previous direct marketing agreement was ended for political reasons in 1963.

The deal will enable De Beers, which already accounts for more than 80 per cent of world trade in rough diamonds and is the world's biggest miner, to deal directly with the Soviet Union and therefore further tighten its grip on the market.

Mr Nicholas Oppenheimer, chairman of the CSO, said: "At a time of considerable financial strain, the Soviet Union has been able to raise a loan of $1bn while signing a contract with De Beers which assures the Soviet Union of a steady and predictable flow of funds from its diamonds for the next five years."

Mr Gary Ralfe, a De Beers director, said repayments on the loan would start in November and attract a commercial rate of interest, but he would not give details.

De Beers had found the cash from its own resources and borrowing facilities already in place. It was already structured to absorb heavy swings in its cash flow as it bought and sold about $4bn of diamonds a year.

The group is heavily undergeared (the last balance sheet showed $1.7bn in cash) and certainly had no need to turn to its shareholders for more money.

Mr Ralfe said the changes made by his group in May, which split the company and placed the non-South African operations into De Beers Centenary, a Swiss subsidiary, was an important factor in the deal because the Soviet Union's contract was with the Swiss company.

On the Soviet side it was signed by Glavalmazzoloto, the precious metals and diamonds organisation.

Although not formally stated, it was implied that the $1bn would go to help finance the further development of the Soviet Union's diamond industry, based in northern Siberia, he added.

Mr Ralfe said he did not expect the Soviet stockpile to be returned to Moscow. If the diamond market developed as De Beers hoped the stones would be sold by the CSO over the next five years.

Commodities, Page 28

Iraqi President Saddam Hussein (left) greets Egyptian President Hosni Mubarak, who is mediating between Iraq and Kuwait

Seipp attacks 'unfair' E Germany

By Andrew Fisher in Frankfurt

MR WALTER SEIPP, chief executive of Commerzbank, West Germany's third largest commercial bank, yesterday spoke out against the "competitive distortions" which he said had arisen with the introduction of western-style banking into East Germany.

Commerzbank has not formed a joint venture in East Germany, but has gone its own way, unlike its bigger rivals, Deutsche Bank and Dresdner Bank. These have teamed up with Deutsche Kreditbank, the commercial banking division of the former state monopoly, taking over existing branches and staff.

"We are for fairness and equal treatment," said Mr Seipp. "The theme of competition, or rather distortions in competition, affects not only banking business but applies to many sectors of the (East German) economy."

He complained that information delays had put Commerzbank at an initial disadvantage in participating in the temporary liquidity credits for East German companies.

He referred to a "functionaries' mafia" in the East German banking system which was keen to secure its future by staying on good terms with the *kombinate* (industrial groupings).

Mr Seipp said the banks in the joint venture with Kreditbank had two weeks' extra notice of the liquidity loans. These credits, guaranteed by the Treuhand (trust), which owns most of East German industry, have been set at 41 per cent of the sums requested by the companies for July.

At first, Mr Seipp said, these liquidity funds were only to be granted by the banks in the joint venture, Deutsche and Dresdner. "This was only changed after our strong intervention in East Berlin."

Pointing out that outstanding corporate loans - around DM130bn ($79.3bn) - were being administered by the joint venture, he said this also gave the bigger West German institutions an advantage.

"We come as a complete newcomer. There are cases where companies have been threatened with having their credits terminated if they go to another bank." Bank officials also noted that Deutsche and Dresdner could later select the best of the longer-term corporate loans for their own books.

However, Mr Seipp, said he was pleased with the start of Commerzbank's operations in East Germany.

He also announced a 17.5 per cent jump to DM611m in first half partial operating profits, excluding trading on its own account, and indicated that the dividend would be increased. He also expected a double digit percentage rise for the full year.

Expressing optimism over the economic future in East Germany, though criticising the size of recent wage deals, Mr Seipp said the bank had begun lending to state-owned companies in need of working capital.

"We are interested in doing credit business with companies likely to survive."

He also said non-German companies should enter East Germany. "We welcome every investment by foreign firms."

Iraq and Kuwait agree to hold talks

By Victor Mallet in London and Steven Butler in Geneva

IRAQ yesterday vigorously pursued its demands for higher oil prices and for $2.4bn in reparation for oil it claims has been "stolen" by Kuwait. However, tension in the Gulf eased with the announcement of talks between Kuwait and Iraq this weekend.

Iraq repeated its call for the Opec reference price to rise to $25 a barrel from the current $18 at the half-yearly Opec ministerial meeting in Geneva.

Opposition in Opec to raising the reference price has all but collapsed, although Mr Rashid Salem al-Ameeri, the Kuwaiti Oil Minister, said the $25 target was "not reasonable." Last night oil ministers were trying to fashion a compromise between member states favouring a modest increase to $20 and those supporting Iraq.

President Saddam Hussein of Iraq, has threatened the United Arab Emirates and Kuwait for flouting Opec production quotas and has sent troops to the disputed Iraq-Kuwait border. However, Egypt said last night that Iraq and Kuwait would have direct talks in Saudi Arabia at the weekend.

Arab and western diplomats in the Gulf said Iraq had promised not to invade Kuwait in pursuit of its longstanding territorial claims, although it was still pressing Kuwait to pay $2.4bn in compensation for oil pumped from the Rumaila field straddling the frontier. Some reports suggested Kuwait had already offered to pay half that amount.

This was the uncompromising message taken from Bagh-

Continued on Page 18

Bullying posture in the Gulf, Page 16; Commodities, Page 28

Britain cuts defence forces as peace dividend begins to emerge

By Alison Smith in London

SWEEPING manpower cuts are to be made in Britain's armed services over the next five years as part of a large-scale restructuring in response to historic changes in eastern Europe which have ended the Cold War.

Mr Tom King, the UK Defence Secretary, told the House of Commons yesterday he envisaged manpower cuts of around 18 per cent, or 57,000 - taking the armed services down to 255,000. The British Army of the Rhine would be halved, and cuts would be made in the number of Royal Navy ships and Royal Air Force squadrons.

The cuts do not, however, affect the Government's plans for a four-boat Trident strategic nuclear submarine force.

Mr King said the Government's aim was "an orderly and planned transition to the new world now unfolding," in which the armed forces would be smaller, more flexible and better-equipped.

Mr King announced the plans as part of the interim conclusions of a five-month defence review, called Options for Change. He said he was unable at this point to give figures for the "peace dividend," but promised that the revised defence spending figures would be published in the UK Chancellor's Autumn Statement on public expenditure.

He made clear that savings in defence expenditure would not immediately be available for spending on other public services. In particular, he talked of a "service dividend" which would be the price paid in moving to provide better equipment for smaller forces.

As part of that capability, Mr King announced that a new strategic reserve division would be set up to deal with contingencies. It would involve the Marines as part of its amphibious, parachute, air-mobile and armoured role.

Throughout, Mr King emphasised that the changes would be dependent on factors such as progress on the talks to limit conventional forces in Europe, a successful conclusion to the "2 plus 4" talks on German unification, and the agreement and implementation of Soviet troop withdrawals from Europe.

They would also be discussed fully with the Nato allies, and the German government in particular would be consulted about proposed changes in deployment there.

The review envisages that British forces stationed in Germany could be halved. The Army, when reinforced from the UK, would go down from four to two divisions, and the RAF bases would be cut back to two. The number of squadrons would go down from 15 to nine, with the loss of four Tornado squadrons and two Phantom squadrons.

The EH101 helicopter programme is still to go ahead, the four-boat Trident nuclear submarine force would be retained, to maintain the UK's strategic deterrent, as would the Royal Navy's three aircraft carriers. But the current fleet of 48 frigates and destroyers could be cut to around 40.

Small company gloom, Page 8; Editorial comment, Page 16

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Sterling in Danger - from a former Thatcher high-flier

Sir Alan Walters (left), former economic adviser to Margaret Thatcher, has published his theories in a book - Sterling in Danger. But Samuel Brittan argues that if sterling is in danger, it is from Sir Alan. Page 16

MARKETS

STERLING
New York lunchtime:
$1.8105
London:
$1.8135 (1.8255)
DM2.9325 (2.955)
FFr9.8325 (9.9075)
SFr2.4875 (2.51)
Y270.0 (271.0)
£ Index 92.9 (93.7)

GOLD
New York: Comex Aug $372.4
London:
$372.5 (369)

N SEA OIL (Argus)
Brent 15-day Sep
$19.4 (19.575)

Chief price changes yesterday: Page 19

DOLLAR
New York lunchtime:
DM1.6205
FFr5.4305
SFr1.3785
Y149.55
London:
DM1.617 (1.6185)
FFr5.4225 (5.4275)
SFr1.3715 (1.375)
Y148.85 (148.4)
$ Index 65.2 (same)
Tokyo close: Y149.13

US lunchtime rates
Fed Funds $7\frac{15}{16}$%
3-mo Treasury Bills:
yield: 7.77%
Long Bond:
$102\frac{3}{32}$
yield: 8.55%

STOCK INDICES
FT-SE 100:
2364.7 (+3.8)
FT Ordinary:
1865.7 (-1.0)
FT-A All-Share:
1162.86 (+0.2%)
New York lunchtime:
DJ Ind. Av.
2,932.18 (+9.66)
S&P Comp
356.87 (+1.08)
Tokyo: Nikkei
31,701.27 (-1.19)

LONDON MONEY
3-month Interbank:
closing $14\frac{31}{32}$-$14\frac{13}{16}$% (same)
Liffe long gilt future:
Sep $84\frac{1}{16}$ ($84\frac{23}{32}$)

Brittan rebuffed over EC state aid

By Lucy Kellaway in Brussels

SIR Leon Brittan, the EC competition commissioner, took a bruising yesterday in his attempt to get several measures on state aids and competition past his 16 Brussels colleagues.

The most crushing defeat was on Ecu20m ($25m) aid to be paid to Daimler Benz in Bremen, which Sir Leon argued was clearly against the rules on aid to the car sector.

He therefore proposed that permission to pay the money should be refused, but failed to get the necessary nine votes, as other Commissioners said that Bremen was an area entitled to receive regional aid, and the subsidy was therefore legitimate.

Against him was the German Commissioner, Mr Martin Bangemann, and the more left wing Commissioners who support Mr Bruce Millan, the commissioner for regional policy.

One Commission official said last night the defeat boded ill for Sir Leon in his efforts to police state aids: "If he cannot get a simple majority behind him on a matter of principle, it does not leave his policy looking very strong".

Sir Leon also failed to secure the expected approval for his proposal that tough terms should be imposed on the merger last year between Douwe Egberts and Van Nelle, both coffee companies of the Netherlands.

The issue was raised at the end of a long meeting, when six Commissioners – whose support could largely be counted upon – had already left.

Rather than risk taking the vote and losing it, Sir Leon decided to postpone the question for a future meeting, and it is now not clear whether it will be decided before the summer break.

This is the second time that the affair has had a rough ride in Commission. It is highly controversial as it would involve the Commission acting against a coffee monopoly in Benelux, which Sir Leon's opponents argue is a matter for the local monopoly authorities, not for the Commission.

Sir Leon Brittan

East German leader hints at deal with coalition partner

By Leslie Colitt in East Berlin

MR Lothar de Maizière, East Germany's embattled Prime Minister, yesterday appeared ready to compromise with his Social Democratic (SPD) coalition partners, who are threatening to abandon the Government tomorrow if he does not make important concessions.

The Prime Minister indicated he might agree to the SPD's key demand that December's elections in East and West Germany be one unified all-German poll rather than separate polls held under different rules for East and West Germany. But he suggested a lower hurdle for small parties than there is at present in West Germany, where parties must win 5 per cent of votes nationwide to enter parliament.

A crucial test of Mr de Maizière's intentions, and those of his CDU allies in Bonn, will come when German unity committees of the East and West German parliaments meet today in Bonn. The SPD said it would sever links with the coalition if the CDU failed to come out in favour of unified elections and a joint electoral law.

Continuing dialogue with the SPD, Mr de Maizière scheduled a "crisis meeting" tomorrow to try to forestall a crippling defection.

The small Liberal party split with the coalition on Tuesday in protest at the Prime Minister's previous insistence on separate elections in East and West Germany on December 2. Separate polls would benefit the Christian Social Union, the Bavarian sister-party of Chancellor Helmut Kohl's CDU in Bonn. But they would also aid the Communists in East Germany, siphoning off votes from the SPD, which hopes to unseat Mr Kohl as Chancellor.

Two Liberal ministers failed to attend a cabinet meeting in East Berlin yesterday but said they were prepared to remain in office as "acting" ministers as long as the Prime Minister did not replace them.

This could serve as a model for the SPD if it decided it had to abandon the coalition. The Social Democrats hold six cabinet posts, including the Finance Ministry, and are loath to relinquish responsibility for governing East Germany in the run-up to unifications with West Germany.

Brussels offers flexibility on working hours

By David Buchan in Brussels

THE EUROPEAN Commission yesterday proposed a new directive on working time, saying that EC governments could leave its implementation to employers and unions if they wanted to avoid statutory legislation.

Offering an olive branch to countries like Britain and Denmark with little statutory legislation on labour issues, Ms Vasso Papandreou, the EC social affairs Commissioner, said Brussels would be flexible about how the directive was implemented, if and when it was approved by the Council of Ministers.

However, the directive was attacked as "unnecessary and unjustified" by Mr Michael Howard, the UK Secretary of State for Employment. "These proposals would mean arbitrary restrictions on the organisation of work," he said. "These restrictions would be an artificial obstacle to new working patterns and would damage job prospects not only here but throughout the Community."

Social affairs Commissioner Vasso Papandreou: open to argument

Ms Papandreou said she was open to the argument that last month's proposal regulating part-time work, and yesterday's proposal on minimum daily and weekly rest periods and limited night work, "could be achieved through collective bargaining" between the two sides of industry. But she warned governments that they would still be open to legal challenge in the European Court if such collective agreements failed to implement the directive.

The proposed flexibility is more likely to be of use to Denmark, which fully supports the EC social charter but has stringent, collectively-bargained labour rules, than Britain, which strongly opposes EC labour legislation and has scrapped much of its own. Even in Denmark, however, many workers are not covered by union contracts.

In response to the British argument that EC social legislation was a diversion from the priority of job creation, Ms Papandreou stressed that the Community had to cater for people, not just goods, and added that the route to higher productivity lay in better working conditions.

Crackdown ordered on Armenian militants

PRESIDENT Mikhail Gorbachev cracked down on nationalist militants in Armenia yesterday, threatening to use force against armed groups if they did not surrender their weapons in 15 days, Reuter reports from Moscow.

Tass news agency said Mr Gorbachev issued a decree ordering all illegal groups to disband and hand over weapons, ammunition and explosives to Interior Ministry troops.

"The decree calls on republican and local organs of power, the Soviet Interior Ministry and the State Security Committee (KGB) to ensure the confiscation of these weapons if this demand is not met," Tass said.

Tass said the decree applied to all illegal armed groups, but it was clearly intended to tackle militants in the southern republic of Armenia, responsible for a series of raids on Soviet troops in recent months.

Clashes erupted in the capital, Yerevan, in late May when about 30 people were killed in clashes between troops and militants. About a dozen died in one incident, when guerrillas ambushed troops at Yerevan railway station.

Gorbachev's crackdown follows warnings by Soviet military leaders in Armenia that armed groups were operating with the tacit approval of the government in Yerevan. The official Soviet media has put their strength at tens of thousands.

The head of the Interior troops, General Yuri Shatalin, recently visited the republic and accused the Yerevan government of conniving with the armed groups, which have amassed huge armouries in attacks on Soviet troops and installations.

Mr Gorbachev's clear warning that he would override Yerevan and use troops under direct Kremlin control, marked a radical step in his battle against militant nationalism.

Use of troops in the past has caused serious bloodshed.

About 200 people were killed in January when troops were sent into the Azerbaijani capital Baku to break a nationalist blockade of the city.

Polish farm deal

Polish farmers who paralysed the country with roadblocks earlier this month, said yesterday they had accepted a government aid package aimed at stopping further protests, Reuter reports from Warsaw.

The two sides said they had agreed on higher grain prices, low-interest credits and aid to the struggling dairy sector.

Romania offered aid

The International Monetary Fund has offered Romania technical assistance to help its transition to a market economy but said reforms should be introduced quickly, Romanian radio said yesterday, Reuter reports.

An IMF delegation ended three weeks of consultations with government officials at the weekend over Romania's plans to rescue its crippled economy.

The radio said the IMF would help with reforms to Romania's banking sector and with tax and budgetary issues.

Election differences fray tempers in the Bonn coalition

By David Marsh in Bonn and Leslie Colitt in Berlin

THE CONSERVATIVE and Liberal partners in the West German coalition swapped insults yesterday after signs of break-up in the East German Government unleashed a tide of venom about all-German elections next December.

But the Social Democrats (SPD), in opposition in Bonn but an uneasy partner of the Christian Democrat-led Government in East Berlin, said they would compromise over the electoral system to be adopted in the December 2 poll.

Ms Herta Däubler-Gmelin, one of the SPD's vice-chairmen, said the party was ready to reduce the 5 per cent voting share hurdle which West German parties presently have to surmount to enter parliament. But she repeated the SPD's calls for the whole of Germany to go to the polls in December with a unified electoral system.

The political squabbling reflects efforts above all by the Christian Democrats (CDU) and their conservative allies in East and West Germany to secure maximum seats in the coming all-German parliament. However, in view of public distaste for what is widely seen as attempted gerry-mandering, the tactics could backfire by upsetting Chancellor Helmut Kohl's prospects of a sweeping victory in December.

The considerable prestige of Mr Lothar de Maizière, East Germany's Prime Minister, has also plummeted as a result of the conflict. So, too, has that of the Liberals and the Social Democrats who threatened also to desert the coalition tomorrow if the Premier did not make important concessions.

Many East Germans, having only just emerged from the recent Communist dictatorship, now harshly criticise the new democratic parties for violating the confidence placed in them in the elections last March. A growing cynicism is taking root which if it deepens does not augur well for democracy east of the Elbe.

The East German news agency ADN said yesterday that the people who brought down a dictatorship last autumn now felt like powerless and uncomprehending extras who were watching a Government squabble.

Many East Germans who fear the loss of their jobs and possible unaffordable flats in the near future find it difficult to comprehend what is to them a wholly esoteric debate.

The debate forced rivalry in the Bonn coalition to surface again yesterday as the Christian Social Union (CSU), the CDU's Bavarian sister party, accused the liberal Free Democrats (FDP) of potentially helping to foment a "coalition crisis" in Bonn. Mr Otto Lambsdorff, the FDP leader and chief protagonist in the dispute over the December voting arithmetic, strongly defended himself against charges that he wanted to "explode" the Bonn coalition.

The political squabbling reflects efforts above all by the Christian Democrats and their conservative allies in East and West Germany to secure maximum seats in the coming all-German parliament.

The CSU would be the main beneficiaries of Mr de Mazière's insistence that the poll should be carried out under two different voting systems in east and west. This is because, under separate electoral regulations in the east, the CSU's East German partner, the German Social Union (DSU), would be reasonably assured of a place in the all-German parliament.

Mr Theo Waigel, the Bonn Finance Minister and chairman of the CSU, said the debate unleashed by the East German Liberals over the elections was stupid. Mr Alfred Dregger, leader of the Christian Democrat and Christian Social parliamentary grouping in Bonn, called the Liberals' decision "small-minded" and likely to "damage Germany".

The FDP counter-attacked by strongly criticising the Christian Democrats' readiness to side with the former East German Communist Party, the PDS, in defending a separate East German voting system. Mr Hermann Otto Solms, deputy chairman of the Free Democrats' parliamentary grouping in Bonn, said the CDU was lining up with "pigs" and "criminals" in advocating separate voting methods.

Berlin closer to being named capital

By David Marsh in Bonn

THE West German government yesterday gave a strong vote of support to making Berlin the capital of a united Germany, adding to uncertainties among Bonn ministries and foreign embassies over whether to prepare for a move.

Mr Rudolf Seiters, Chancellery Minister, who has played a leading role in the negotiations on German unity during the past few months, said in an interview: "I personally believe there is no way round Berlin becoming the capital. Everything else would be an illusion."

Mr Seiters however left open whether Bonn and Berlin could share future government functions, saying the interests of the two competing cities would need to be "coordinated."

Partly because of strong opposition to Berlin among the West German Länder (states), Mr Helmut Kohl, the Chancellor, favours moving the capital to Berlin but – at least for an interim period – keeping Bonn as seat of government.

There is strong speculation that the West German Environment Ministry could become the first government institution to make a move to Berlin. Mr Klaus Töpfer, the Environment Minister, a keen personal supporter of Berlin, says that no decision has been taken.

The West German Foreign Ministry has meanwhile recommended foreign embassies in Bonn maintain their current diplomatic representations in East Berlin as "Aussenstellen" (branches) after unity of the two Germanys at the end of the year. Ambassadors accredited to East Germany will leave the country before the all-German elections on December 2, as Bonn takes over full responsibility.

In view of the strong pro-Berlin feelings of Mr Hans-Dietrich Genscher, the Foreign Minister, the move is being interpreted by some foreign diplomats as a signal that Berlin will become the "capital-in-waiting" after December 2.

The US and French governments still own the land where their pre-1945 embassies stood on the Pariser Platz in East Berlin close to the former Wall. Britain however has given up its rights to the old pre-1945 embassy and will have to make do with extending its present cramped building on Unter den Linden.

French industrial output rises

By William Dawkins in Paris

FRENCH manufacturing industry recorded a 6.5 per cent rise in output last year, which was faster growth than in 1988, and it created jobs for the first time since 1974, according to the Industry Ministry's annual production review.

It estimates that industrial groups created 30,000 net new jobs last year, all in small and medium-sized companies, which increased their workforce by 2.2 per cent. By contrast, big companies (with more than 500 employees) reduced staff by 0.6 per cent over the same period, though that is a much slower rate of job loss than in previous years, says the study.

The increased activity has helped companies improve net profit margins slightly, to an average of 3.7 per cent of turnover last year, against 3.4 per cent in 1988. "Despite the increase in the workforce, the dynamism of activity and the maintenance of moderate salary levels has played favourably on results," says the report.

However, a separate study published by Insée, the national statistics institute, says this improvement is only temporary. Salary increases and the costs of keeping up high levels of investment this year will lead to a profits downturn, it warns.

According to the Industry Ministry study, industrial exports grew by 7.7 per cent in volume last year, the same rate as in 1988, and by 12.5 per cent in value. Output for the domestic market grew less quickly, by 5.6 per cent. This allowed the average French industrial company to export nearly 29 per cent of its turnover, the highest for five years.

Belated gesture of openness

By Leyla Boulton in Moscow

IN a belated gesture towards glasnost, the secretive central committee, traditionally the powerhouse of the Soviet Communist Party, is setting up a press centre.

The plan was unveiled by Mr Alexander Dzasokhov, the new politburo member responsible for ideology, in the white-marbled splendour of the party's exclusive October hotel.

"We acknowledge the need to inform regularly the mass media of our country, as well as foreign media," he said, flanked by Mr Georgy Pryakhin, the head of the new press centre.

"Over the next few months, we are going to try to secure meetings for journalists with all the leaders of the central committee, secretariat and the politburo," Mr Dzasokhov added.

The irony is that the central committee is opening up its doors just days after its emasculation at the 28th party congress - which effectively extracted the party from the machinery of government.

The politburo elected by the central committee at the congress is a colourless body of 24, with not a single member of government in its ranks, apart from President Mikhail Gorbachev, the party's general secretary.

The real centre of power is now the presidency, as Mr Nikolai Ryzhkov, the Prime Minister, and all the other leading members of the Government, including Mr Eduard Shevardnadze, the Foreign Minister, and Mr Vladimir Kryuchkov, the head of the KGB, have left the politburo to sit on the Presidential Council.

Asked how he saw the role of the new politburo, Mr Dzasokhov's vagueness was a clear indication of how the ruling organs of the Communist Party must now cast around for a new function.

The October hotel, surrounded by an intimidating black fence, was previously reserved exclusively for Communist Party guests.

Recently opened up to visitors with hard currency, the hotel features a luxurious pine-panelled auditorium with a hundred chandeliers that will house future press centre gatherings.

"By setting up a press centre, we will reduce the chances of the building being expropriated," joked one party official, touching on the sensitive subject of the party's enormous property portfolio - estimated at Rbs1.4bn.

Russians brave rain to mourn singer of the nation's woes

By Leyla Boulton

THOUSANDS of Russians braved torrential rain to pay tribute at a Moscow cemetery yesterday to Vladimir Vysotsky, the singer who captured a nation's heart with ballads about the harsh realities of Soviet life.

On the 10th anniversary of his death, Vysotsky's grave was turned into a sea of flowers as queues of mournful admirers stretched well beyond the gates of the Vagankovskoye Cemetery.

"It's good that it is raining today because it sums up people's mood here," said Mrs Elena Zubova, a 31-year-old housewife from a small town in the Ural mountains. "I was 10 years old when I first heard his songs. I grew up with him so to speak," she said, clutching a bouquet of daisies.

Vysotsky, a poet, actor,and balladeer best remembered for his gravelly voice and solo guitar, was a social outcast when he died of a heart attack at the age of 42. Living on the fringes of official disapproval, his songs were distributed among millions via home-made tapes.

"He's still alive to this day," said a language teacher in her thirties who declined to give her name. "He represents everything for us. He's as great as Pushkin," she added, accompanied by her engineer husband, who was carrying a bouquet of pink roses.

"I love, respect, and value Vysotsky," said Mr Gennady Fomin, a 50-year-old who described himself as a philosopher.

Vysotsky, who was married to Marina Vlady, a French actress, encapsulated the hopes and frustrations of people around him with a humour and vivid imagery unrivalled by any other Soviet artist.

One song, "Citizens, Why Push?" was about an overcrowded Moscow streetcar. "Dear ones, Why grumble? We're all passengers in this society, we all live tearing off tickets, we ride through life like in a streetcar."

Although he wrote 800 songs in his lifetime, Vysotsky only gained official recognition after Mr Mikhail Gorbachev came to power in 1985. Four years ago, the Official Writers Union (of which Vysotsky was never a member) established a commission to document the "literary heritage" of Vysotsky.

Irish give go-ahead for Sandoz

By Kieran Cooke in Dublin

SANDOZ, the Swiss chemicals company, has been given the go-ahead by the Irish planning authorities for an I£170m (£153m) pharmaceuticals factory at Ringaskiddy, County Cork, despite protests from environmentalists and residents.

The planning authorities have specified that Sandoz must comply with what are widely agreed to be the most stringent environmental conditions ever imposed on an industry setting up in Ireland. Campaigners against the Sandoz factory are now considering whether to take their case to the Irish High Court.

The plant will eventually employ 250. The Cork area has a concentration of chemicals factories and local residents have frequently complained about noxious smells and water pollution in Cork harbour.

Last year Marion Merrell Dow, the pharmaceuticals subsidiary of Dow, the US chemicals company, pulled out of an I£60m project in the Cork area after protesters had raised a number of environmental objections.

The Industrial Development Authority, the Irish state body responsible for promoting inward investment, said the decision on Sandoz meant that further investments could be sought in the pharmaceutical sector, one of the big growth areas in the Irish economy.

Doubts over a small Dublin hospital recall a great poet's warning

By Kieran Cooke in Dublin

IN 1925 William Butler Yeats, poet and senator in the Irish Parliament, made an impassioned plea for the acceptance of Protestant ideas in the newly-formed Irish Republic.

"If you show that this country, Southern Ireland, is going to be governed by Catholic ideas and by Catholic ideas alone, you will never get the North ... you will put a wedge into the midst of this nation ... you are now going to act on the advice of men who do not express the poetical mind, but who express the religious mind ...."

The immediate subject under discussion was legislation prohibiting divorce in the republic. Yeats, a Protestant, lost his case. Divorce is still outlawed in Ireland.

Now a smaller but none the less vital battle is being waged against what is seen as the domination of Roman Catholic ideas. The Adelaide hospital in Dublin is the last surviving Protestant teaching hospital in the republic. While the Adelaide operates entirely within the law – it cannot for instance perform abortions, which are prohibited in the republic – it does perform operations such as vasectomy and female sterilisation. Such operations are almost impossible to obtain in either Roman Catholic-run state hospitals, where nursing and medical staff are strongly influenced by Roman Catholic teaching.

Now the Adelaide is threatened with closure. Under government plans, the hospital is to be amalgamated with two others.

"The Adelaide retains what we call a Protestant or liberal ethos," says Dr David McConnell, chairman of the hospital's board. "This means that our practices are based solely on the doctor/patient relationship, free from any outside influence or interference." The fear is that Roman Catholic ideas will predominate.

The Adelaide is a small hospital with only 180 beds. But the outcome of arguments over its future is being keenly watched by Protestants on both sides of the Irish border.

Protestants within the republic – they make up less than 5 per cent of the population – say the Roman Catholic church has succeeded in exercising influence over virtually

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every aspect of Irish life. This is contrary to the spirit of the Irish constitution and has only served increasingly to marginalise the Protestant minority, they say.

The Adelaide wants assurances that if it is to be amalgamated with other hospitals its Protestant "ethos" must be preserved. The Government says it is sympathetic to the Adelaide's position and wants matters to be resolved in discussions among the three hospitals concerned.

"We are not willing to be homogenised," says Dr McConnell. "The distinctive traditions of the Adelaide are not something to be bartered in discussion. We either are what we are or we disappear. This is an important test as to whether the Government really wants Protestant ideas and traditions to be preserved here."

Not only Protestants but many Roman Catholics are fighting the Adelaide corner. They accuse both church and government of hypocrisy on many matters. While abortion remains illegal in Ireland many thousands of Irish women travel to England each year to have such operations.

Recent court judgments mean that groups in Ireland who discuss abortion or offer counselling to women with unwanted pregnancies are liable for prosecution. Two Dublin clinics which have in the past given such counselling are taking their case to the European Court of Human Rights, claiming the judgments of the Irish court go against EC rulings on freedom of information.

The anti-abortion lobby is a powerful one. Amniocentisis, the medical procedure which can trace foetal abnormalities, is almost impossible to obtain in the republic. The reasoning is that if foetal abnormalities are found, a woman might decide to have an abortion.

In other matters, ranging from limitations on various contraceptive methods to the lack of sex education in schools, many feel that the Roman Catholic church has had its way for too long. Protestants say their rights have been slowly eaten away by a state which has become increasingly Roman Catholic.

Yeats argued that the Protestant minority contributed a great deal to Irish life. It should have its ways preserved: "I am proud to consider myself a typical man of that minority. We, against whom you have done this thing, are no petty people. We are one of the great stocks of Europe ... We have created the most of the modern literature of this country. We have created the best political intelligence ...."

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Poor nations blame rich for stalling trade talks

By Peter Montagnon and William Dullforce in Geneva

DEVELOPING countries will today make a formal protest over the lack of progress at this week's meeting of the Uruguay Round Trade Negotiations Committee.

The protest will be made by Mr Rubens Ricupero, Brazil's ambassador to Gatt.

He is expected to tell the closing session of the TNC the leading industrial powers lack the political will to square up to vital issues such as reform of trade in farm products and textiles.

The decision to make the protest was taken yesterday at a lively meeting of developing countries which registered no fewer than 32 complaints about the conduct of this week's talks.

Delegates complained that they had been led to believe that substantive negotiations would take place here. Ten African countries sent delegations despite the cost involved, and Malaysia came with 14 officials who have had virtually nothing to do.

Instead, they said, the industrial powers appeared to have decided in advance to defer tackling the real problems until the autumn, aggravating the time constraints now facing Uruguay Round negotiators.

Mr Ricupero is expected to say that the developing countries are prepared to negotiate constructively, even on issues where they have been accused of stalling in the past, such as Gatt's article allowing them to restrain imports for balance of payments reasons.

However, a senior US official said there was no evidence that this was the case. Developing countries had not come to Geneva prepared to offer many concessions. For instance, the tariff cuts offered by the ASEAN countries and India had been too small.

Earlier this week, Mr Julius Katz, Deputy US Trade Representative, complained that tariff reductions offered so far by Uruguay Round participants amounted to less than half the targeted 33 per cent.

Despite the ill-feeling among developing countries and some smaller industrial states, such as Switzerland, at the outcome of this week's meeting, European and US officials said it had in fact created a strong basis for the final four months of the Round.

The European Community was now openly committed to serious negotiation on farm reform. Participants were also working towards a strict timetable for the rest of the discussions, which Mr Arthur Dunkel, Gatt's director-general, is expected to announce today.

This would include setting a date in the first week of October for placing the TNC in permanent, if informal, session so that top trade officials could be called in to resolve blockages over crucial agenda items.

Participants are also likely to agree on October 15 as the deadline for making their offers to improve market access. These are to include proposals for tariff cuts, the removal of non-tariff barriers to trade as well as special concessions for natural-resource based and tropical products.

Gatt to draw up tighter rules for waivers

By William Dullforce in Geneva

THE GROUND has been laid in the Uruguay Round for removing the waiver from Gatt rules that the US secured in 1955, enabling it to restrict agricultural imports. However, the US continues to make the removal conditional on a successful outcome to the talks on the reform of world farm trade.

It has also been agreed that all other waivers should be eliminated by agreed dates and that in future any waivers granted will be subjected to much stricter conditions.

The changes to article XXV, under which the US was granted its now notorious waiver, are among those listed as already effectively agreed in the report to the Round's Trade Negotiations Committee this week from Mr John Weekes, chairman of the group negotiating improvements to Gatt articles.

Earlier this year the European Community failed in an attempt to challenge US restrictions on imports of sugar. A Gatt disputes panel upheld the US right to exploit its waiver.

Under the amended rules Gatt will have to state the exceptional circumstances justifying its decision to grant a waiver. It will have to spell out the terms and conditions governing the waiver and set a date for its end. Any waiver granted for more than one year will be reviewed annually to determine that the exceptional circumstances cited still exist and that the conditions attached to the waiver have been observed.

Another amendment to a Gatt article which has been agreed in practice would improve the mechanism under which governments negotiate modifications of their tariff schedules. Another amendment to an article would require governments to ensure that state trading enterprises comply more effectively with Gatt's principle of non-discriminatory treatment when buying and selling.

Mr Weekes' report shows failure to agree on stricter rules for trade protective measures introduced by countries citing difficulties with their balance of payments (BOP). The report summarises the arguments advanced by the industrial countries for tightening the BOP provisions but notes that the group has not been able to agree even that the issue should be a subject for negotiation.

Shaky start to EC talks with Efta

By David Buchan in Brussels

NEGOTIATORS for the European Community and the European Free Trade Association yesterday ended their first bargaining session on creating a European economic area divided over issues such as transport, public procurement, competition policy and institutional structure.

Many differences arise out of Efta's request for exemptions from EC rules. EC officials expressed concern at the number of exceptions tabled by Efta, and said these had to be kept to a minimum, must be related to safeguarding vital Efta interests and be limited in time.

Switzerland and Liechtenstein appeared to be trying to opt out entirely of EC rules governing free public procurement, complained EC officials.

Efta officials said they wanted an improved free trade zone, leaving an EC-Efta customs union as a later option. In the services field, Efta said it would prefer broadcasting across the frontiers of the 19-states involved to be covered, not by EC law, but by the convention of the Council of Europe of which Efta states are members.

Taiwan's trade with China rises sharply over year

By Peter Wickenden in Taipei

INDIRECT trade between Taiwan and China reached \$373.7m in May, a 22 per cent increase compared to May last year, Taiwan's Board of Foreign Trade reported.

Indirect trade across the Taiwan straits plunged after the Tiananmen Square incident last June, but has shown a steady recovery this year on the back of increasing Taiwanese investment in China.

Quoting Hong Kong customs figures, the organisation said that Taiwan's May exports to China totalled \$303.34m, up 18.9 per cent on May 1989. Imports increased by more than 40 per cent to reach \$70.42m. Trade up to May this year was worth \$1.49bn, down 0.3 per cent on the same period last year.

Taiwan's exports to May dropped 0.1 per cent to \$1.03bn, while imports from China grew by 18.7 per cent. Bilateral trade is expected to exceed \$4bn this year.

Exports to China consist mainly of industrial raw materials and parts, particularly man-made fibres and cloth (39 per cent), machinery and equipment (10 per cent), electrical machinery and components (11 per cent), and plastic raw materials (10 per cent). Exports of television tubes, plastic and shoe manufacturing machinery were among items that have seen a dramatic fall in exports to China this year.

Imports from China are primarily medicine and frozen fish, both of which are showing strong growth. Currently Taiwan allows 151 items to be imported from China. It is now considering expanding the list to reduce rampant smuggling across the strait by fishing boats.

● Taiwan's Commercial Times reported that Chinese and Taiwanese business groups plan to set up a joint venture bank in China's Fujian Province.

Directly opposite Taiwan, Fujian attracts the majority of Taiwanese investment in China and will be the focal point of direct trade when Taipei allows it, possibly before the end of this year.

So far this year 160 Taiwanese companies have applied to invest in Xiamen, Fujian Province, twice the number in the first half of last year. Investment in China is becoming longer term, and more capital and technology intensive in nature.

Poland eases curbs on exports to Soviets

By Christopher Bobinski in Warsaw

THE POLISH Government has eased its attempts to limit exports to the Soviet Union under pressure from companies dependent on the Soviet market.

The Government has accepted that sales of machinery and equipment under the terms of a trade protocol for 1990 should reach Rbs2.6bn and not the Rbs1.6bn originally envisaged.

The decision is important to exporters as those who sell within protocol limits receive Zl 2,100 for every rouble earned while those who go over the protocol get Zl 1,100 less. As it is the export figure will still be lower than last year's Rbs3.6bn of Polish machinery sales to the Soviet Union and the Rbs4bn worth that Polish companies wanted to export this year.

The government decision came after months of intense lobbying by Polish companies. These faced collapse if the Soviet market had been closed to them.

Goods on the additional list are those which Poland thinks it will be able to sell to the Soviet Union next year when hard currency pricing is adopted and which this year do not require a subsidy.

Originally the trade protocol for 1990 envisaged Rbs5.3bn Polish exports to the Soviet Union and Rbs5.1bn imports.

A 37 per cent drop in Soviet deliveries has meant that after six months of this year imports were worth Rbs1.7bn while Polish exports had reached Rbs3.2bn and the surplus had mounted to Rbs1.5bn.

The surplus is dismaying the Poles who want the Soviet Union to reduce its Rbs5bn debt on the grounds that it arose when Poland was overcharged for construction work on Soviet pipelines.

● The Franco-Italian group Avions de Transport Regional (ATR) will supply Poland's national carrier LOT with eight short-range airliners under a \$100m deal signed here this week, a LOT spokesman said, Reuter reports from Warsaw.

The arrangement is being financed by a consortium of banks headed by Banque Nationale de Paris which will buy the twin-turboprop ATR-72s and lease them to LOT, he said.

LOT will become the owner of the aircraft after paying back their cost value, but the spokesman decline to say to say when this would occur. The first aircraft would be supplied in June 1991 and the last in 1994, he said.

The ATR-72s, with wings mounted above the fuselage, have a range of 1,000 miles (1,600km) and can carry up to 72 passengers.

They will replace 11 twin-prop Soviet-made Antonov-24s, which have an average age of 20 years and are currently used on domestic routes.

Embraer hopes to win bigger market with new aircraft

By Christina Lamb in Rio de Janeiro

EMBRAER, the Brazilian state-owned aircraft maker, is to launch its CBA123 19-seat passenger aircraft next week, in an attempt to increase its world market share for regional and feeder airlines to 45 per cent by the end of the decade.

The aircraft is the first industrial joint venture between Brazil and Argentina and the outcome of a co-operation treaty signed between the two neighbours in 1986. The Argentinian company, FAMA, has reduced its third share in this \$300m project to 20 per cent. There are already 300 orders for the aircraft, which completed its maiden flight last week.

Embraer has 39 per cent of the world regional airline market, with its 30-seat Brasilia. One of the most popular regional aircraft, it is used in 15 countries and one is as likely to fly in a Brasilia in Norway as in Angola.

Mr Heitor Serra, the commercial director, says the company is particularly targeting the US, where it wants to push up its share of seats from 11 per cent to 20 per cent by the year 2000.

In the past, hostile trade relations between the two countries has led the US to delay deliveries of Brasilias. On August 2, Embraer will sign a \$250m contract with the US airline, Northwest, to provide 30 Brasilia aircraft with an option for a further 35. This follows a contract to supply four aircraft to TAT, the fourth largest French airline.

By 1992 Embraer hopes that the Brasilia and the CBA123 will be joined by a larger aircraft, the EMB145, which will be Brazil's first jet-powered passenger aircraft. The 40-seater is being financed by an innovative scheme involving the creation of an offshore investment fund. Mr Serra explains: "The CBA123 exhausted our funds, so for the 145 we invited our ten major suppliers to participate with risk capital, while we asked banks and leasing corporations to participate on a debt basis." Set up last October, the fund has provided \$180m, which will be repaid on the basis of royalties once the aircraft starts selling.

Mr Serra sees the opening of eastern Europe, the EC's single market and the deregulation of airlines in Australia, as well as new closer trade ties with the US, as opportunities for Embraer to increase its regional airline market share with its range of three models.

Although the focus is now very much on commercial and civil aircraft, Embraer's largest order this year is one to supply the French air force with 80 Tucanos, the company's successful turbo-prop trainer, which is used in 12 countries and also produced under licence by Shorts. The FFr1.2bn (£120m) contract is expected to be finalised on September 15.

This contract will help Embraer's sales top \$800m this year. Last year the company made a profit of \$89m on sales of \$692m, of which \$505m was export revenue, making the company Brazil's sixth largest exporter. This was a considerable upswing from 1988, when it made a loss of \$35m on sales of \$519m.

Mandela admits ANC guerrillas hard to control

By Patti Waldmeir in Johannesburg

MR Nelson Mandela, deputy president of the African National Congress (ANC), yesterday admitted that the ANC could not control its armed wing, Umkhonto we Sizwe, some of whose members have recently been arrested by Pretoria in connection with an alleged plot to overthrow the government.

Mr Mandela, who addressed a press conference following the end of a two-day meeting of the ANC's national executive committee, denied the existence of such a plot and emphasised that negotiations with Pretoria were still on course. "I know of not one single ANC member who does not support peaceful negotiations," he said.

Mandela: bad communications

However, he later admitted that the ANC was having difficulty communicating this message to its guerrilla fighters.

He said this was because the movement had not yet built up organisational structures and lines of communication after 30 years as an illegal organisation.

Pretoria has made a number of arrests of ANC guerrillas in recent weeks, alleging that they were involved in a plot master-minded by the South African Communist Party (SACP) to stockpile arms and establish safe houses with a view to overthrowing the state if negotiations failed.

The government believes that Mr Joe Slovo, SACP general secretary and a prominent ANC member, was involved in these operations and may resist his inclusion in the ANC negotiating team due to meet government representatives on August 6.

Further arrests, including prominent SACP members, are also possible, diplomats said.

Mr Mandela said he had discussed the arrests with Mr F.W. de Klerk, the President, during a meeting last Friday, and had asked him for time to communicate the ANC's message to all guerrillas.

However, he defended Mr Chris Hani, chief-of-staff of the ANC's military wing, who has recently made a number of militant statements, including a threat to "seize power" from Pretoria.

He said Mr Hani's comments, which have angered Pretoria, were intended to suggest action the ANC would take if negotiations broke down, and not before.

Mr Mandela angrily rebutted the suggestion of a split within the ANC over the issue of abandoning the organisation's 30-year armed struggle. The issue of when to suspend hostilities is understood to have been discussed at the executive meeting.

A statement issued at the end of the meeting made clear that the next session of talks between the ANC and Pretoria would discuss a suspension, although Mr Mandela said no halt could be agreed before certain long-standing conditions had been met, including the release of remaining political prisoners, lifting the state of emergency in Natal province, return of exiles, the end of political trials and the repeal of repressive legislation.

Baker braced for Asian criticism of US policy

By Lionel Barber in Washington

MR James Baker, US Secretary of State, yesterday embarked on a 12-day trip to Asia braced for criticism from regional allies of Washington's policies on Indo-china and Vietnamese refugees.

The tour includes stops in Indonesia and Singapore, and a first-ever visit by a senior US official to Mongolia, the former Soviet satellite making tentative steps toward a multi-party democracy.

On August 1-2, Mr Baker will hold talks with Mr Eduard Shevardnadze, the Soviet Foreign Minister, in an effort to reach an agreement on a ceasefire and subsequent elections to end the 12-year-old Afghan civil war.

However tantalising the prospect for peace in Afghanistan may be, Mr Baker's immediate concern is to dampen criticism in South-east Asia over the recent US policy shift on Cambodia. Unless he can turn on some of his Texas charm, the US risks losing sight of other important goals such as Asia Pacific Economic Co-operation – which happens to be the Secretary of State's pet project.

Mr Baker is due to arrive in Jakarta tonight where he will attend a meeting of the six-nation Association of South-east Asian Nations (Asean) and major allies such as Canada, Australia and Japan. Cambodia threatens to dominate what is usually a genteel, somewhat ceremonial gathering.

Last week, the Bush Administration withdrew support for the coalition fighting the Vietnamese puppet regime of Hun Sen in Cambodia and announced it would hold direct talks with Vietnam, ending 15 years of isolation. The official reason was that the murderous Khmer Rouge, the dominant military faction in the coalition, was in danger of sweeping back to power. Even more decisive, however, was congressional pressure to dump the Khmer Rouge.

Asean allies, particularly Thailand and Singapore, have started complaining about a lack of consultation. This is a little spurious because their diplomats in Washington must have detected the evaporation of support in Congress for covert aid to the Cambodian resistance and drawn the appropriate conclusions. But it does betray hurt sensitivities, heightened by dismay that Washington appears to have extended recognition to a government in Pnomh Penh installed by force.

Mr Baker will counter by emphasising that the US still intends to provide aid to the non-communist resistance loosely aligned to the Khmer Rouge; he will point out that the US is not dealing directly (at least, not yet) with Hun Sen; and he will offer as yet unstated proposals to deal with Cambodia's vacant seat at the United Nations.

Mr Baker will also attempt to sound more flexible on refugees, both Vietnamese and Cambodian. This is becoming a pressing issue because the US continues to oppose the deportation of Vietnamese economic migrants against their will back to Vietnam.

Commonwealth pledge to work for democracy

By Robert Mauthner, Diplomatic Correspondent

CHIEF Emeka Anyaoku, the new Commonwealth Secretary-General, yesterday committed himself to the strengthening of democracy in the 49-member organisation, which over the last few years has concentrated its energies mainly on fighting apartheid in South Africa.

While in no way minimising the need for the Commonwealth to continue its involvement in the campaign for the ending of apartheid and the establishment of a democratic, non-racial government in South Africa, Chief Anyaoku clearly indicated that other important problems must now be addressed. He specifically referred to the 1971 Singapore Declaration of Commonwealth Principles, of which democracy is one of the most important.

"One of the lessons to be drawn from the experiences of countries with command economies is surely that national potential for development cannot be fully attained unless the people are mobilised sufficiently to participate fully in development," he said.

He was making his first public policy statement since taking office at a lunch of the Diplomatic and Commonwealth Writers Association in London.

The Commonwealth Secretariat had begun to explore ways of implementing the agreement at the Commonwealth summit meeting in Kuala Lumpur last autumn, that the organisation should provide assistance to members in organising their elections through the provision of observer missions. He stressed, however, that he could only act at the request of member governments.

Predicting a resurgence of ethnic, racial and religious troubles, as well as an increase in regional and national conflicts in the 1990s, Chief Anyaoku also emphasised that the Commonwealth could play the role of "a facilitator of conflict resolution".

On South Africa, the Secretary-General said that "the first tentative steps towards the dismantling of apartheid are being taken". With perseverance and a determination not to be side-tracked by extremist forces, there was "a possibility" that Pretoria and the democratic forces within South Africa could ultimately reach an agreement.

Chief Anyaoku expressed the hope that he would see the return of South Africa to the Commonwealth by the end of his five-year term of office.

Maude urges end to Peking abuses

By Our Foreign Staff

THE frosty atmosphere which has overhung Sino-British relations since the forcible suppression of demonstrators in Peking last year improved markedly yesterday when Mr Francis Maude, British Treasury minister, held talks with Li Peng, China's hardline premier.

Mr Maude, on a visit to Peking as minister in the Foreign Office, the post from which he was transferred earlier this week, discussed issues outstanding on Hong Kong and said he urged Premier Li Peng to make further "positive moves" over human rights issues.

Mr Maude said he did not discuss with Li in depth Britain's plans to give passports to 50,000 key Hong Kong people and their families in a bid to shore up confidence in the colony, but there was "not a trace of anger" on the Chinese side over the issue, Mr Maude said.

This nationality bill, which has in the past drawn stinging criticism from China, was approved by Britain's House of Lords this week and was due to become law today.

Li showed understanding of Britain's position on Hong Kong and expressed China's willingness to work together for the colony's stability and prosperity, Mr Maude said, describing his meeting with the Chinese premier, a leading hardliner who played a prominent role in last year's crackdown, as open and positive.

Mr Maude welcomed the release of some political prisoners, the lifting of martial law in Peking and Tibet and the decision to allow the dissident scientist, Prof Fang Lizhi, to leave the country as positive steps taken by China recently.

China has made it clear it hopes Mr Maude's visit will lead to a further easing of Western sanctions to allow a resumption of low-cost loans from the 12-nation EC.

Taking the lead earlier this month, Japan said it would go it alone and open up a package of low-cost government loans worth more than $5bn (£2.74bn).

"China has given high acclaim to friendly gestures taken by (British Prime Minister Margaret) Thatcher recently," Li told Mr Maude.

Australian state may sell assets to balance budget

By Kevin Brown in Sydney

THE Labor government of Victoria yesterday said it was considering selling the publicly-owned State Insurance Office and the Gas and Fuel Corporation to raise money to balance its budget and meet debt interest payments.

Mr John Cain, the Premier, said the government was trying to meet federal government demands for debt reduction by the states, and maintain spending on services in the face of falling federal transfer payments.

"Sales of assets is one way of doing it, and that is the context in which [this] is being seen," Mr Cain said.

The Victorian government has presided over relatively high growth and low unemployment over the last few years, but has built up debts of A$25bn (£10.7bn) and is thought to be facing a budget shortfall of up to A$1bn this year.

The government also faces the costs of several financial failures, including the Tricontinental merchant bank, the Victorian Economic Development Corporation, and a guarantee to refund in full deposits in the crashed Farrow Corporation building societies group.

Mr David White, the state industry minister, said the government might seek to retain a majority interest in the Gas and Fuel Corporation, or use a golden share or other right of veto to keep some control of supply and prices.

However, the proposals were immediately condemned by leaders of Victoria's powerful trade union movement, and by left-wing members of the Labor Party.

Kaunda announces amnesty

PRESIDENT Kenneth Kaunda of Zambia, fighting to restore his political credibility after last month's anti-government protests and coup attempt, yesterday announced an amnesty for political prisoners, **Mike Hall writes from Lusaka.**

He also granted opposition demands for the re-registration of voters for the forthcoming referendum on multi-party democracy, but said the date would have to be moved from this October to August 13 next year.

Mr Edward Shamwana, a leading lawyer and best-known political prisoner, sentenced to life imprisonment in 1980 for his involvement in a coup plot, will be pardoned with his colleagues.

Lt-Gen Christon Tembo and three other army officers currently on trial for treason for an alleged plot in 1988 will also be released, as will Lt Mwamba Luchembe and other officers allegedly behind last month's coup plot.

Fijians consolidate political power

By Kevin Brown in Sydney

FIJIAN President Ratu Sir Penaia Ganilau yesterday formally proclaimed a constitution designed to ensure that political power in the South Pacific island state remains in the hands of ethnic Fijians.

In an address to the nation, broadcast from Government House in Suva, Ratu Ganilau said the constitution would immediately replace the 1970 constitution under which Fiji was governed until a republic was declared following the second of two coups in 1987.

The constitution, which has not yet been published, gives indigenous Fijians an automatic majority in a bicameral parliament, as well as the right to hold the office of prime minister and guarantees of traditional land ownership.

Ratu Ganilau said an elected house of representatives would have 37 seats for ethnic Fijians, 27 for ethnic Indians, five for other races, and one for the Polynesian island of Rotuma.

An upper house of review would have 24 seats for ethnic Fijians, nine for other races, and one for Rotuma. The constitution also guarantees immunity from prosecution for Maj-Gen Sitiveni Rabuka, the army commander who led both 1987 coups, which followed the election of Fiji's first government dominated by ethnic Indians.

Ratu Ganilau said democratic elections would be held before the end of next year. However, the multi-racial coalition which was ousted from government in the first coup has said it will boycott any elections held under a constitution which entrenches racial differences.

The coalition, which has been campaigning for support from Australia and New Zealand, the two main regional powers, has condemned the constitution as "racist, feudalistic and unfair".

Ratu Ganilau said Fiji had failed to build a multi-racial society in the 20 years after independence from Britain because there had been little assimilation of different groups. He said all Fijian citizens would be covered by "an elaborate bill of rights", and called on Indians and other races to have faith in Fiji "as a nation with a bright and shining future".

Ethnic Fijians make up an estimated 48 per cent of the 720,000 citizens of Fiji, compared to the 46 per cent of Indian origin.

Most of the Indians arrived in the country as indentured sugar workers during British colonial rule.

"We are not moving into the unknown with some revolutionary, radical proposition. The constitution places great emphasis on fundamental rights, freedom and representation," Ratu Ganilau said in his broadcast.

"It was never our intention to disenfranchise Indians or any other non-Fijians or deprive them of their rights," he said.

"I believe we can prosper and achieve unity in diversity . . . a time of prosperity and national fulfilment is very close."

Over 11,000 queue for UK passports

By John Elliott

More than 11,000 people yesterday applied for British naturalisation and a chance to be accorded full UK passports under a new British bill which is due to receive Royal Assent today.

They joined queues which were hundreds of yards long outside Hong Kong's immigration offices.

The offices were expected to stay open until early this morning to cope with the last-minute rush.

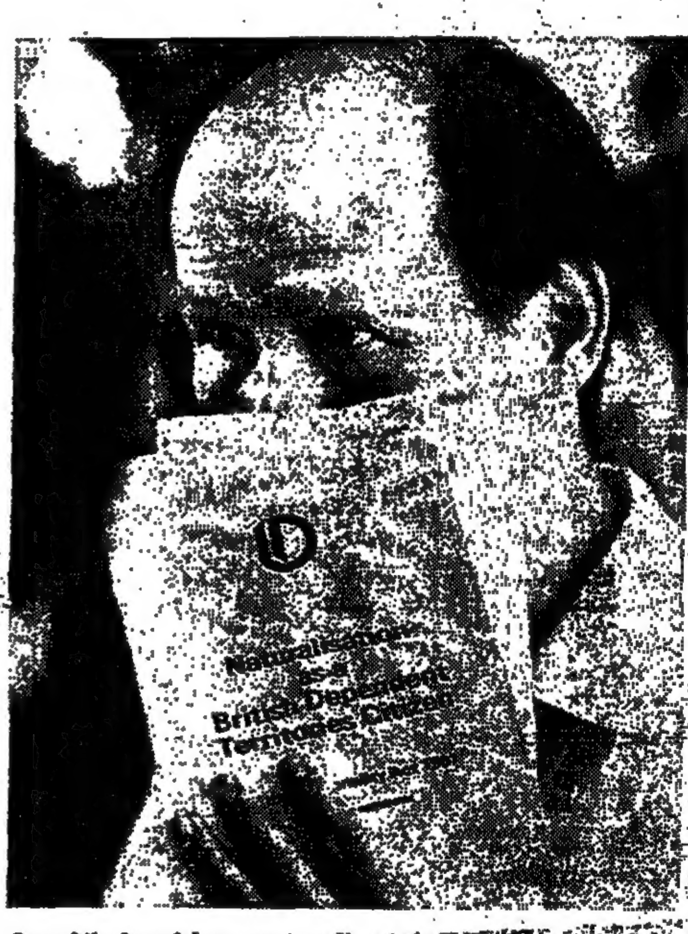
But entry to the queues was being stopped at midnight, the deadline for applications.

More than 2,000 people lodged applications by the time immigration offices shut at midnight on Tuesday night and many more camped outside overnight to wait for them to reopen yesterday morning.

The applicants want British Dependent Territories' Citizens passports to allow them to apply early next year for the first tranche of full British passports that will give 50,000 households a right of abode in the UK.

In the whole of last year there were only 1,074 applications and 600-750 was the normal rate in each of the previous four years.

About 2.32m of the 5.8m population are not naturalised and carry only identity documents.



One of the hopeful passport applicants in Hong Kong yesterday

Hong Kong suffers drop in exports

By John Elliott in Hong Kong

HONG Kong's hope of an early economic recovery suffered a setback last night when it was announced that the colony's domestically produced exports declined by 0.6 per cent in money terms last month compared with June last year, after growing by 6.4 per cent in May.

Taken together, the two months show a small increase of 2.8 per cent in money terms or about 1.5 per cent in real terms. This led government economists to suggest last night that the economic decline trend, which developed towards the end of last year, had stabilised and might be beginning to go into reverse.

Hong Kong has been hit by China's economic and political problems and by a decline in world trade. Growth in gross domestic product fell to around zero in the first quarter of this year, having marginally declined at the end of last year.

The government will decide by the end of next month whether to reduce its current growth forecast for 1990 of 3 per cent. For this target to be achieved, there would have to be a rapid recovery. Economists differ on what the actual figure will be, forecasting from 1.5 per cent upwards.

Total exports in the first half of this year grew by HK$20.48bn (£1.45bn), or 7.8 per cent in money terms, which roughly equals 4 per cent in real terms, above the same period last year. Domestically produced exports fell by HK$1.52bn, or 1.5 per cent in money terms, continuing the downward trend. Last year there was no overall growth.

Re-exports produced in China and other countries and processed through Hong Kong rose in the first half of this year by HK$22bn, or 13.7 per cent.

This compares with 19 per cent growth in the whole of last year and 46 per cent in 1988 when Hong Kong's entrepot trade was thriving.

Imports rose by HK$15.2bn, or 5.5 per cent in money terms, in the first half of this year to HK$291bn, leaving a visible trade deficit of HK$8.2bn.

Iran fails to foil its money changers

By Scheherazade Daneshkhu

ON Tehran's street corners the money changers are again breathing a sigh of relief. Iran's most recent attempts to overhaul its baroque currency system have failed, leaving much of the country's foreign exchange business in the hands of the free market.

The Government tried to sideline free marketeers and strengthen the riyal last month by introducing a new exchange rate for importers of IR1,270 to the dollar, which compared with a free market rate of IR1,400.

But the move backfired. Confidence in the riyal dropped even further when it became known that the Government was prepared to countenance such a low official rate for the currency; within three days the dollar climbed to IR1,400 on the free market and later reached IR1,450, a rate not seen even during the worst bombardments of the Gulf War.

The Government, it seems, simply does not have enough determination or foreign exchange to put the free marketeers out of work, and Iranian importers and industries continue to pay the price of its failure to sort out the chaotic, multi-tiered foreign exchange system. There are at least four different exchange rates.

Iran has one of the biggest discrepancies between the black market value of a currency and the highest official value. The official exchange rate for the riyal is IR70 to the dollar, 20 times its real value.

So far the authorities have had little choice but to tolerate the free market. Its grip on the economy is such that even the price of domestically-produced goods fluctuates in relation to the dollar.

The discrepancy between the two rates, however, creates all sorts of problems. For one, Tehran this year topped the Geneva-based Corporate Research Group's survey as the world's most expensive city, beating Tokyo for the second year running.

The Government is aware of the problems and the Minister of Heavy Industries has blamed the "artificially strong" riyal for encouraging imports and discouraging exports.

President Hashemi Rafsanjani said last year: "The fact that there is an immense difference between the government rate and the free rate constitutes one of the prominent problems of our economy and rectification of this situation has been prioritised."

The introduction last October of a "competitive" rate of IR800 to the dollar had succeeded – for a short period – in strengthening the riyal from IR1,250 to IR1,000 against the dollar on the free market.

But the rise of the riyal was short-lived, as the rate was offered only to a limited number of state-affiliated industries for selected imports. The Government was unable to satisfy wider demand for foreign exchange.

"The Government sells dollars to an importer for IR1,270 but I get only IR420 for my dollar earnings," said one angry exporter.

Iran is dependent on oil for 90 per cent of its foreign exchange and the slump in world prices this year has affected its earnings dramatically. The Government estimates an income of [illegible] from oil exports this year, but acknowledges that this is not enough for a country of [illegible] embarking on an ambitious programme of reconstruction after its eight-year war with Iraq.

After the failure to strengthen the riyal, the Government now argues that its exchange rate policy is directed at suppressing inflation, which it conservatively estimates at 30 per cent, by mopping up excess liquidity in the economy, partly the result in the first place of a policy of printing money to finance the war effort.

President Rafsanjani recently estimated that the Government's sale of foreign exchange at the free market and competitive rates had taken IR2,000bn out of private hands, contributing to a gradual fall in inflation.

But a commentary on Tehran Radio said that "in order to continue the trend of production at competitive exchange rates, the fluctuation of foreign exchange rates in the open market should be kept under control".

The International Monetary Fund, which has been holding talks with Iran for the first time since the fall of the Shah in 1979, has recommended that the Government should clarify its foreign exchange policy and aim to unify the rate.

Tehran's latest attempts to sort out its tangled foreign exchange system have followed neither piece of advice and have run into the sand.

Debt-service bunching causes reschedule dilemma for Algeria

A short-term cash-flow problem threatens to turn into a longer-term headache, write Francis Ghilès and Stephen Fidler

THE difficulties Algeria faces in servicing its $25.3bn foreign debt and importing adequate food and raw and semi-finished materials are their most acute since independence.

Three factors have conspired to make the task of the Minister of Finance, Mr Ghazi Hidouci, an unenviable one. First is the high level of debt repayments – just more than $5bn last year, $5.9bn in 1990 (as well as $1.5bn in interest payments) and $4.8bn next year. Second is the fluctuation in the price of oil, though the state oil company Sonatrach will get an average of $18-plus on the oil it sells this year. Third is the victory of the Islamic Salvation Front (FIS) in local elections last month.

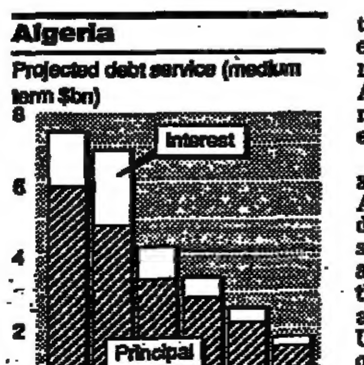
Mr Hidouci and Mr Abderrahmane Hadj Nacer, governor of the central bank, who enjoys an unprecedented authority and autonomy, remain firm in their pledge that Algeria will do all it can to avoid a wholesale rescheduling of the country's debt. The leader of the FIS, Mr Abassi Madani, shares this view, which he has publicly stated.

In many ways, Algeria could be likened to an oil company with a cash-flow problem. The debt is not large if related to income – $9.5bn in 1989, an estimated $10bn this year and a forecast of $12bn for 1991.

The Government, led since last September by Mr Mouloud Hamrouche, has also enacted bold measures aimed at liberalising the economy. Foreign investors are now allowed to own 100 per cent of companies and to repatriate all profits. All requests for investment are submitted to the six-man Conseil de la Monnaie et du Credit, which has agreed four joint ventures with foreign companies since the changes four months ago – with the private Saudi banking group Al Baraka to set up an on-shore bank and leasing company; with the Spanish company Repsol Quimica to produce polymers; with the US company Air Products and Chemicals and L'Air Liquide of France to produce helium; and with Compagnie Francaise des Petroles.

Algeria

Projected debt service (medium term $bn)



Source: Ministry of Economy, Algeria

Other oil companies are negotiating research permits that hold promise in an under-explored country. However, many oil companies insist the Algerians must allow for international arbitration, something expected to happen soon.

Relations with oil companies are central as 98 per cent of Algeria's foreign income is derived from hydrocarbon sales. Environmental considerations in Europe are boosting the use of natural gas, while any slowdown the Soviet Union experiences in its export of hydrocarbons will help Algeria.

The arguments against a rescheduling centre on a short-term bunching of repayments rather than a large absolute debt burden. By 1992, principal repayments drop to $3.3bn and in 1993 to $2.84bn.

A rescheduling would have advantages. It would allow a comprehensive approach to the country's debt problems, which would mean each group of creditors contributing to the solution. It would accomplish it more efficiently than through the individual negotiations needed in the path so far chosen.

But while Algeria's lack of access to international finance is acting as a constraint on its freedom of action, so would a rescheduling, given the conditions banks would be likely to impose. There is also a danger that negotiations on a rescheduling with creditor governments, dominated by the French, could revive old animosities.

A loss of its good credit standing could take years to repair. Most rescheduling countries have taken far longer than they initially expected to regain free access to international financial markets.

Algeria has access to a number of official financing sources, including the French Government and an $800m commodity credit recently granted by the US. It also has some $2bn in gold reserves which could be sold or used as collateral for loans.

Algeria appears to have recognised, however, that it has to take a less than traditional approach if it is to avoid rescheduling by raising new funds to refinance maturing debt. Banks are simply unwilling to accept straight Algerian risk, especially in view of the provisions many lenders have already established to cushion against possible losses.

The Government is therefore moving ahead with plans to encourage banks to lend by giving lenders collateral to ameliorate the banks' risk.

It is looking to raise $1bn-$1.5bn through bank loans secured on zero-coupon bonds, although there are several drawbacks to this approach. The country must borrow more to pay for the collateral and financing the collateral raises significantly the cost of funds. It also could close the door for some time on any unsecured lending.

It can also use future export receipts such as oil as collateral for loans. Its ability to do this will be enhanced when gas exports increase as they are expected to do from next year. Credits tied to liquefied natural gas export contracts to the US is a possibility. More traditional project finance could also help.

But bankers point out that more is needed than a receptivity to new ideas. If Algeria is to avoid rescheduling, the international financial markets these days demand quick decision-making to take advantage of short-lived opportunities. Algeria's bureaucratic processes have traditionally moved slowly and it remains uncertain whether, with the lack of financial expertise in the Algerian Government, they can be speeded up.

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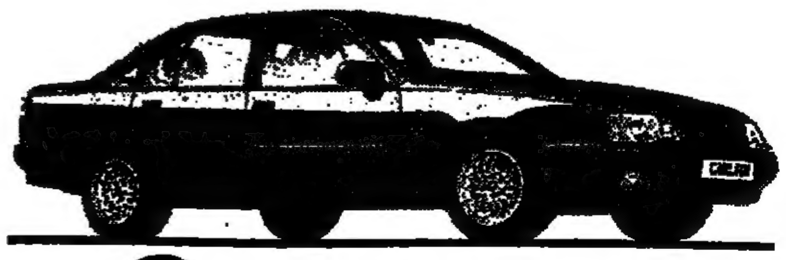

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Brady urges tight capital requirements for US banks

By Peter Riddell, US Editor, in Washington

TIGHTER capital requirements and removal of restrictions on banking activities are likely to be the centrepiece of far-reaching changes in US banking and financial services to be proposed by the Bush Administration early next year.

A Treasury-led study into federal deposit insurance and the banking system will be completed by the end of this year. Any legislative recommendations will be presented early in the next Congress, which meets in January, Mr Nicholas Brady, the US Treasury Secretary, promised yesterday.

In testimony to the Senate Banking Committee yesterday, Mr Brady also said the sharp drop in prices on Wall Street on Monday emphasised the need for Congress to enact "right away" legislation changing the regulation of equities and derivative instruments. He has been pressing, against strong opposition from the futures markets and the Commodity Futures Trading Commission, for the Securities and Exchange Commission (SEC) to take over supervision of stock index futures as well as stocks. A compromise is being discussed.

Mr Brady also questioned whether heightened concern about inflation was warranted.

Most of his evidence was about banking and financial services legislation. He told the committee that the US banking system had outgrown its historic regulatory structure. This, he said, had resulted in over-capacity, layers of regulation, concentration in the riskier parts of traditional commercial lending, uneven product diversification and inefficient limitations on geographic diversification. There had also been a measurable decrease in the international competitive position of US banks. Mr Brady's analysis was similar to that offered two weeks ago by Mr Alan Greenspan, the chairman of the Federal Reserve.

In particular, Mr Brady argued that any changes to permit broader activities by banking groups should be linked to strong capital requirements, preferably risk-based. "Reliance on stringent capital requirements and increased market discipline can serve as an offset to excessive regulation." He added that any regulatory reform must be undertaken with a view to enhancing the profitability of the system and hence the ability to attract capital.

Mr Brady said changes would not be proposed which increased taxpayers' exposure. He denied that allowing US banks to become more competitive through broader powers would automatically increase taxpayers' exposure or would destabilise the system. He pointed out that a government safety-net, such as deposit insurance, was common throughout the world.

He also called for uniformity of regulation along functional lines rather than by institution (banking activities by banking regulators and securities' operations by the SEC), together with a simplification of the present complicated regulatory system.

Reforms should, he said, start from the premise that market participants should decide the appropriate structure for their own organisations.

While the Glass/Steagall law separating banking and securities was no longer the rigid wall it once was, the new rules were sometimes arbitrary and inefficient and needed to be rationalised.

Mr Brady noted that in practice full interstate banking was fast becoming a reality, though this mainly involved establishing separate banks with separate capital structures and directors rather than the lower costs of an interstate branch network. He said any reform proposal should permit market participants to decide on the structure they wanted.

Durable goods orders down sharply

By Anthony Harris in Washington

US DURABLE goods orders fell sharply in June, dropping 3.2 per cent, the Census Bureau reported.

In other signs of softer industrial activity, mid-July car sales fell sharply after a three-week mini-boom, and early reports from the Philadelphia Federal Reserve Bank showed a downturn in activity and shrinking order books.

The June fall in durable goods orders followed a 4.2 per cent rise in May, which had reversed earlier weakness. But financial market economists had expected a further modest rise in orders, and the bond market edged up after news of the fall, while equities eased.

About half the change was due to a 20.7 per cent cut in defence orders, which had risen just as sharply, and against the policy trend, in the previous two months. But even excluding defence, orders were down 1.7 per cent, and have now fallen 1.5 per cent in the first half of 1990, compared with the same period of 1989.

Orders for civilian capital equipment – a reliable indicator of investment trends – also fell 1.7 per cent in the month. Unfilled orders, which have risen almost without interruption for several years, fell 0.5 per cent in June.

Sales of domestically-built cars (including those assembled in Canada and Mexico), which had been very strong in the previous three weeks, fell to an annual rate of 6.8m in the mid-July selling period, as widely expected.

Ford, where production was interrupted by holiday lay-offs, took the brunt of the fall, and Chrysler, unusually, improved slightly its market share. Sales of most Japanese "transplants" continued to rise.

The mini-boom was attributed to the impending end of some heavy discount programmes, especially on discontinued models, and the average sales rate for the first half-year, at 7.1m, is slightly up on the second half of 1989.

Despite the softer sales, car output continues to rise.

Eastern on maintenance charges

By Roderick Oram in New York

EASTERN Airlines, the embattled US carrier operating under protection of a bankruptcy court, and several of its managers were indicted yesterday on charges of falsification of aircraft maintenance records over a four-year period.

A US grand jury said some managers intimidated and coerced maintenance workers into falsifying records so as to make it appear that repairs and scheduled maintenance had been carried out. The managers' goal was to minimise flight cancellations or delays, the grand jury said.

Some 60 charges were handed down by the grand jury, relating to work at Kennedy and La Guardia airports in New York, and at Atlanta's main airport, between July 1985 and October 1989.

Plea-bargaining between Eastern and the government had broken down on Monday when the airline refused to admit to a conspiracy charge. It said such an admission would imply that maintenance irregularities had been systematic; it believed they were isolated incidents.

Eastern said the indictments related to "historical events" and bore no relation to its current maintenance practices.

The Federal Aviation Administration and the Department of Defence conducted two full investigations in 1988. Eastern took remedial actions and paid more than $1m in fines. The airline's maintenance facility at Kennedy airport has since been closed and some managers from the three airports reassigned.

Eastern's long history of bad labour relations came to a head in March 1989, when its maintenance workers went on strike. Pilots walked out in sympathy, forcing the airline to seek court protection. Most of the current flight and ground crews have been hired in the past 18 months.

Eastern, a subsidiary of Continental Airlines Holdings (former Texas Air), is struggling to revive its business under Mr Martin Shugrue, a trustee appointed by the bankruptcy court.

The indictments are unlikely to prompt many passengers to take another airline because they cover events several years ago.

Coup plot rumours heeded by Menem

By Gary Mead in Buenos Aires

MR Raul Granillo Ocampo, a senior aide to Argentina's President Carlos Menem, has admitted that the government is studying a report which suggests that dissident army rebels, together with disaffected members of the Peronist movement, may be plotting to destabilise the administration by taking over army installations on or around August 31.

Although Mr Ocampo said that it is "absolute nonsense" to believe that such an incident could occur, the government is nevertheless worried.

US President George Bush is due to visit Argentina on September 16, in the first such presidential trip since that of President Eisenhower.

Suggestions that a plot of this type might exist were first published on Monday in the national daily El Cronista Comercial, which normally eschews the type of rumour-

Carlos Menem

mongering so prevalent in much of the Argentine press.

Mr Ocampo's acknowledgement of the government's own concern is widely regarded as confirmation that the forces opposed to President Menem are regrouping after a period in the wilderness.

Together with that must be added the fact that Mr Menem's wife, from whom he recently separated in a blaze of publicity, has close contacts with disgruntled military officers and Peronist trades union leaders, some of whom have openly described the president's policies of privatisation and economic austerity as a betrayal of Peronism.

Mrs Zulema Yoma de Menem also recently forecast that the country "will go to the devil in August". Her close supporters include former colonel Mohamed Ali Seineldin, who led a four day army rebellion in December 1988, which toppled the army's leadership.

Mr Seineldin in turn is known to be in close touch with Mr Saul Ubaldini, head of one section of the divided Argentine trades union movement, the CGT.

Mr Ubaldini has made clear his opposition to President Menem's economic policies, and has in the past turned to Mrs Menem for support.

At the same time President Menem maintains strong popularity in all public opinion polls, despite growing unemployment and social hardship for many at the bottom of the economic ladder.

His government has succeeded in curbing inflation to below a monthly 15 per cent and there is widespread support for his sale of inefficient state-owned companies to the private sector.

However, his government is dogged by petty scandals, the most recent being rumours of a romantic involvement between Mr Menem and Ms Maria Julia Alsogaray, state overseer of the privatisation of the telephone company Entel.

Brazil expects October stand-by pact with IMF

By Christina Lamb in Rio de Janeiro

BRAZIL expects to reach a stand-by agreement – to obtain $1.4bn over 18 months – with the International Monetary Fund by October, according to Mr Antonio Kandir, chief policy maker at the Economy Ministry.

He has just returned from discussions with Mr Michel Camdessus, IMF managing director, in Washington, saying the fund remained willing to negotiate an accord regardless of whether Brazil reached agreement with commercial banks on its debt service arrears, which will amount to $10bn by the end of the year. Brazil has paid no interest on its $114bn foreign debt for the last year, and arrears to banks now stand at $5.5bn. Mr Kandir said it was "unlikely" that payments would resume this year.

An IMF mission is to arrive in Brazil next week to look at the effects of the Government's economic programme.

Mr Jorio Dauster, Brazil's chief debt negotiator, said: "We intend to follow the model of Argentina". However, Argentina obtained its stand-by agreement only after making a token payment of $40m to private sector creditors – a move Mr Dauster insists Brazil will not make.

He and heads of creditor banks are in talks to try to negotiate a debt reduction. Banks are becoming increasingly impatient with Brazil's refusal to pay, but Mr Dauster says: "So far they are just making noises. No credit lines have been cut. With our reserves at just over $8bn, we are in no position to pay."

Mr Dauster reacted angrily to accusations that Brazil might be using foreign exchange reserves to buy back debt on the secondary market at about a quarter of face value. "There has never been any use of international reserves to buy back debt by this government," he said. However, he admitted: "Some individuals may have done so with the backing of big creditor banks".

Collor places heavy tax on short-term money

By Christina Lamb

A PUNITIVE tax on short-term investments comes into force in Brazil today as a further move by President Fernando Collor's government to suppress liquidity and curb inflation.

The Financial Operations Tax (IOF), levied up to a maximum rate of 1.5 per cent a day, applies to all credit, insurance and exchange operations which tie up money for less than 18 days.

It is designed to coax savers back into savings accounts and longer-term government bonds from overnight accounts, in which financial operations are now concentrated. Investors holding fixed-income securities are exempt from the tax, which the central bank hopes will raise $2bn over the next year.

Mr Ibrahim Eris, central bank governor, said the daily turnover on the overnight money market had stabilised at the equivalent of about $9bn – down from $15bn two months ago. He expected the new tax to shrink this further and increase the flow of funds to longer-term savings.

"Overnight investments are almost equivalent to interest-bearing cash, which can trigger a surge in demand at any time," he explained to Gazeta Mercantil, Brazil's leading financial journal. "Now each one of us will think carefully about what he does with his cash since the shorter terms will be penalised."

So far, the financial market seems willing to comply. Last week, after the tax was announced, the Government sold bonds worth the equivalent of $2.7bn, with a pre-fixed rate of interest and 42-day maturity. Demand was for more than $5bn-worth, the central bank stated.

However, the Collor administration may face a legal battle over the new tax. Some experts say the IOF is another form of income tax, which the constitution states can only be introduced by legislation, not presidential decree.

Tension rises in Haiti over ex-ministers

By Canute James in Kingston

POLITICAL tension is rising in Haiti after clashes between supporters and detractors of the provisional government over the treatment of two former government ministers who returned to the country from exile this month.

Government officials in Port-au-Prince, the capital of the Caribbean republic of 7m people, said they feared the situation could deteriorate, following the government's failure to arrest the two men.

After a delay which was criticised by several political parties, the administration of interim President Ertha Pascal-Trouillot issued warrants for the arrest of Mr Roger Lafontant, Interior Minister in the Duvalier dictatorship which fell in 1986 and head of that regime's feared paramilitary Tontons Macoutes, and Mr Williams Regala, alleged to have links with the murder of 34 voters in aborted elections in 1987.

Supporters of Mr Lafontant, shouting "Duvalier is the only one", clashed with government loyalists outside a courthouse this week. Inside, Mr Lafontant's lawyers unsuccessfully contested the validity of the warrant for his arrest. The two former ministers are in hiding.

The police intervened to end the clash, and several people were arrested.

Diplomats in the country said yesterday that both Mr Lafontant and Mr Regala appeared to have significant public support, and that the government would have difficulty in apprehending and charging them without a violent public reaction.

Mr Jimmy Carter, US former president, is due in Haiti this week to observe preparations for a presidential election set for November 4.

● Opposition parties and trade unions in the Dominican Republic have threatened public protests if the government implements an economic austerity programme which would entail price increases.

President Joaquin Balaguer, who narrowly won a further term in an election in May, said the government will be increasing the prices of petroleum and imported food before he begins his new term three weeks hence. Opposition leaders said the increases would increase inlation and affect mainly poor Dominicans. The government says inflation is running at 45 per cent this year, but opposition parties contend it is near 100 per cent.

There has been sporadic violence in the country since Mr Balaguer's victory was announced. The main opposition party claims the vote was fraudulent.

Peru braces itself for 'Fuji-shock'

New president has no option but to get tough, writes Sally Bowen

PERUVIANS are bracing themselves for "Fuji-shock", the tough economic measures which they expect after the new government of Mr Alberto Fujimori takes over on Saturday. The free-market dollar has soared against the Peruvian inti, while customers have cleared supermarket shelves of controlled price foodstuffs and drivers have queued for hours to fill up with the last of Peru's 10-cent a gallon petrol.

Meanwhile subversive groups have unleashed a wave of terrorist violence in Lima aimed at the business sector. They assassinated last year's "Businessman of the Year" and three of his private bodyguards, and set off a chain of fire-bombs, causing severe damage to half a dozen shops and two cinemas in the capital. Police and fire services were stretched to the limits, with fires raging till dawn after water supplies – already short because of the drought in the Andes – ran out.

The chain of events, coming on top of a damaging jail-break 10 days earlier when 48 subversives from the Tupac Amaru Revolutionary Movement (MRTA) escaped through a tunnel from a "maximum security" prison, underscores the array of problems awaiting the incoming Cambio (Change) 90 government.

The most serious of these is the economy, with annualised inflation running at 3,000 per cent and rising. Controlled prices of food, fuel and public services are lagging far behind their real levels and will need immediate adjustment of perhaps 300 per cent across the board. Net international reserves are negative by $144m, leaving the new government no option but to apply "Fuji-shock".

President-elect Fujimori, as one Lima newspaper commented, "is between the sword of the IMF and the wall of his election promises". On his post-election visit to New York, he appeared to have satisfied the principal international financial organisations of his intention to apply the strong corrective measures that would facilitate a bridging loan and rapid stand-by credit.

But back home, Mr Fujimori has come under increasing pressure from his supporters to keep to one of the few specific pledges of his deliberately vague election campaign and

Fujimori: needs miracles

reject severe IMF-style economic measures.

The appointment as Premier and Minister of the Economy of Juan Carlos Hurtado Miller, a vaguely leftist former minister in Mr Fernando Belaunde's 1980-85 centre-right government, was interpreted as an attempt to satisfy these seemingly irreconcilable requirements. In the event, it appears to have satisfied neither.

Earlier, two of Mr Fujimori's closest economic advisers, Mr Santiago Roca and Mr Adolfo Figueroa, resigned. Both had been defenders of a "gradualist" approach to economic stabilisation, arguing that the already battered poorer sectors of Peruvian society could not absorb a full-frontal attack on inflation and consequent recession.

Peru's economic plight is further exacerbated by terrorism. The 10-year guerrilla war of Sendero Luminoso (Shining Path) is estimated to have cost the country 20,000 lives and $10bn, equivalent to half of Peru's foreign debt. And the foreign investment which Peruvians of all political complexions accept as crucial to revitalising the economy, is unlikely to flow in until security is assured.

Mr Fujimori's cabinet announcements confirm recent indications that he is viewing the guerrilla threat more seriously. There are three military men among the cabinet ministers already announced by Mr Hurtado Miller. They are General Adolfo Alvarado Fournier, Minister of the Interior, General Jorge Torres Aciego, Defence, and retired Admiral Raúl Sanchez Sotomayor, Fisheries Minister.

Mr Fujimori has been living for the past two weeks in Lima's Military Club for security reasons and is in close daily contact with the military. A well-placed source says that the army has been promised a free hand in the anti-subversive war in return for quashing coup-mongering among the other two services.

The appointment of a general to the Interior Ministry, which commands Peru's police force, is a controversial move. Mr Raúl Gonzales, a prominent Peruvian sociologist and analyst of Sendero Luminoso, called it "a very grave mistake". Any increase in traditional police-army tensions would favour the growth of subversion, he said. He was also concerned that the armed forces would play an excessively influential role in the new government's policy.

In his other ministerial choices, Mr Fujimori's attempted reconciliation of some of Peru's diverse political forces has resulted in what one critic called a "disconcertingly pluralist cabinet". The Education Minister, Gloria Helfer, is a militant from the United Left party (IU) and closely involved with the teachers' union. The Minister for Energy and Mines, Fernando Sanchez Albavera, is a moderate from the smaller, newer Socialist Left splinter party, as is the Agriculture Minister, Carlos Amat y León. But all three are specialists in their fields and fulfil Mr Fujimori's criterion of appointing ministers for their "technical and professional capabilities".

Independent economist Mr Guido Pennano, director of a well-regarded economic review and a frequent guest on television talk-shows, was a surprise appointment late on Tuesday night to the Ministry of Industry.

There are no representatives from Mr Fujimori's fledgling Cambio 90 movement in this first cabinet. Neither is there a representative from the outgoing American Popular Revolutionary Alliance (Apra).

Two ministerial posts remained unfilled yesterday – justice and labour. Mr Diego Garcia Sayan, president of the Andean Commission of Jurists, is frontrunner for the justice ministry, while the choice of minister of labour is to be agreed in consultation with the unions.

Leaders of the bankers and private business associations expressed guarded optimism about the look of the new cabinet. Union chiefs, however, declare themselves worried at the possibility of a change in Cambio 90 policy. Mr Fujimori will need to work a minor miracle if he is to retain the support of the majority of this divided and increasingly violent society.

LEGAL NOTICES

ROCKWOOD LEASING LIMITED

Registered number: 2166571
Nature of business
Leasing Company
Trading classification: 36
Date of appointment of joint administrative receivers
6 July 1990
Name of person appointing the joint administrative receivers
Lloyds Bank Plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
Joint Administrative Receivers
(Office holder nos 249 and 159)
Cork Gully
43 Temple Row
Birmingham
B2 5JT

ROCKWOOD PROPERTIES LIMITED

Registered number 2082158
Nature of business
Property Company
Trade classification: 35
Date of appointment of joint administrative receivers
6 July 1990
Name of person appointing the joint administrative receivers
Lloyds Bank Plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
Joint Administrative Receivers
(Office holder nos 249 and 159)
Cork Gully
43 Temple Row
Birmingham
B2 5JT

EDUCATION

NOTICE OF INTEREST RATE

To the holders of

BankAmerica Corporation

Floating Rate Subordinated Capital Notes Due October 1999
CUSIP 066050 BG 9

Pursuant to the provision of the Notes issued under the Indenture of BankAmerica Corporation dated as of June 15, 1984 as amended by the Second Supplemental Indenture dated as of September 30, 1987, the rate for the period from July 24, 1990 up to and including October 22, 1990 is 9.375%. The amount of interest payable on October 24, 1990 is U.S. $2,395.83 for each $100,000 principal amount of the Notes.

Manufacturers Hanover Trust Company, as Calculation Agent

July 20, 1990

TDK CORPORATION CDR's

The undersigned announces that the Annual Report 1989 of TDK CORPORATION will be available in Amsterdam at:

Pierson, Heldring & Pierson N.V.,
Algemene Bank Nederland N.V.,
Amsterdam-Rotterdam Bank N.V.,
Bank Mees & Hope N.V
and Kas-Associatie N.V.

Amsterdam, 24 July 1990

AMSTERDAM DEPOSITARY COMPANY N.V.

Tories dismiss criticism of nuclear policies

By David Thomas, Resources Editor

THE Conservative Government yesterday rejected all the main conclusions of a scathing report from the House of Commons energy committee on its failure to monitor the costs of nuclear power.

The report, published last month, had accused two Cabinet ministers, Mr Cecil Parkinson and Mr Malcolm Rifkind, of mishandling the attempt to privatise Britain's nuclear power stations.

The Department of Energy yesterday accused the committee of misunderstanding the process which culminated last November in the scrapping of plans to privatise the nuclear industry.

The Government issued its response on the same day as a further highly critical report from the energy committee on fast breeder nuclear technology.

The latest report says there is no justification for Britain to continue in the European Fast Reactor, a project involving Britain, France and West Germany which could cost Britain as much as £800m.

In the report, the committee pours cold water on the need for British participation in the EFR, a project seen in the industry as one of the last chances of preserving leading-edge British nuclear technology.

The UK, West Germany and France are partners in the project. "We can see no reason to believe that it would be worthwhile to participate in the construction of the EFR in 1997," the report says.

The report recommends that British participation in the EFR should be reviewed in 1993, when the reactor's initial design is due to be completed, and in 1997 when construction is to begin.

The committee argues that the Energy Department has distorted its research and development budget by sanctioning £4bn of spending on fast breeder reactors, a technology which may not be needed for 130 years.

The Government's memorandum on nuclear costs blames the now defunct Central Electricity Generating Board for failing to warn early enough about increases in costs such as reprocessing and waste treatment. The department says it was not its job to monitor such costs.

The Government rejects the committee's request for the publication of comprehensive information on the setting of the nuclear levy, which currently costs electric consumers about £900m a year.

Its memorandum ducks the committee's recommendation for for future nuclear projects to be subject to private sector investment analysis.

The Government accepted, however, that separate information on generating costs from the different types of nuclear information should in future be published.

DEFENCE STATEMENT

King outlines plans to restructure armed forces

By Paul Abrahams

MR TOM KING, Secretary of State for Defence, yesterday outlined the broad proposals of a new structure for the UK's armed forces. In a statement to the House of Commons, he said the proposals would bring a reduction in the share of GDP taken by defence.

Mr King declined, however, to give details of the scale of any potential savings, adding that any cost benefits would be announced as part of the Chancellor's autumn statement.

The number of regular service personnel will be reduced by about 18 per cent by the mid-1990s, according to the proposals. The regular army will be reduced from by about 40,000 to 120,000; the Royal Navy by 3,000 to about 60,000; and the Royal Air Force by about 14,000 to about 75,000.

In addition, the number of UK-based civilian employees will be cut by about 21,000 to 120,000. Mr King said the Volunteer Reserves will continue to play a key role.

The number of troops stationed in Germany could eventually be reduced to roughly half of their present strength according to the proposals. When reinforced from the UK, the army should be able to contribute two divisions, as opposed to the four presently envisaged. One of the divisions could be maintained in Germany, with the other maintained in the UK.

A smaller, better equipped, properly housed and trained, and well motivated force was the aim of the new policy, said Mr King. He explained there would be a need in the future for flexible and mobile forces able to contribute both in Nato and, if necessary, elsewhere.

The government will be looking at the possibility of establishing a strategic reserve division which could bring together amphibious, parachute, air-mobile and armoured formations.

Mr King affirmed the government's nuclear commitment. The UK will maintain a four-boat Trident force capable of delivering nuclear warheads. In addition, he confirmed that a sub-strategic force of Tornado aircraft capable of carrying nuclear weapons would be kept based in Europe. The ageing Buccaneer aircraft presently in service will be retired.

According to the proposals, the navy will continue to have three aircraft carriers, carrying updated Sea Harrier aircraft. However its destroyer and frigate force will be reduced from about 48 ships to 40.

This, said Mr King would be achieved by reducing the older, less capable and operationally more expensive ships. However, the EH101 helicopter programme will be maintained, said Mr King, subject to satisfactory progress. Furthermore, the navy's minesweeping capability will not be cut.

In addition, the navy's anti-submarine capability will be reduced. The four squadrons of Nimrod patrol aircraft will be reduced by 15 per cent. And the number of submarines will be cut from 27 to about 16 boats, of which only four would be diesel-powered. The two squadrons of ageing Buccaneer maritime strike aircraft will be replaced by Tornados.

The RAF's fighter force based in the UK will be smaller than originally planned. It will comprise seven squadrons of air-defence Tornados, supplemented by armed Hawks. The remaining two Phantom squadrons will be withdrawn.

The number of RAF bases in Germany is expected to be cut from four to two, while the number of squadrons would be reduced from 15 to nine.

Mr King said the Harrier and helicopter forces there would be maintained, as well as four squadrons of Tornado aircraft which would be capable of carrying out conventional and nuclear roles.

Mr King said the pace of change will depend upon the signature and implementation of a conventional forces agreement, and how quickly Soviet troops leave eastern Europe and other forces are run down.

Mr King added that the precise shape of contributions to Nato must reflect discussions with Nato authorities and allies.

The House of Commons Select Committee on Defence, meanwhile, said in a report issued yesterday that, for the next few years at least, the adaptation of British forces to the changed circumstances would not be cheap.

Redeployment of forces from Germany might require substantial capital investment in military and civil infrastructure, which would absorb much, if not all, of the savings on foreign exchange.

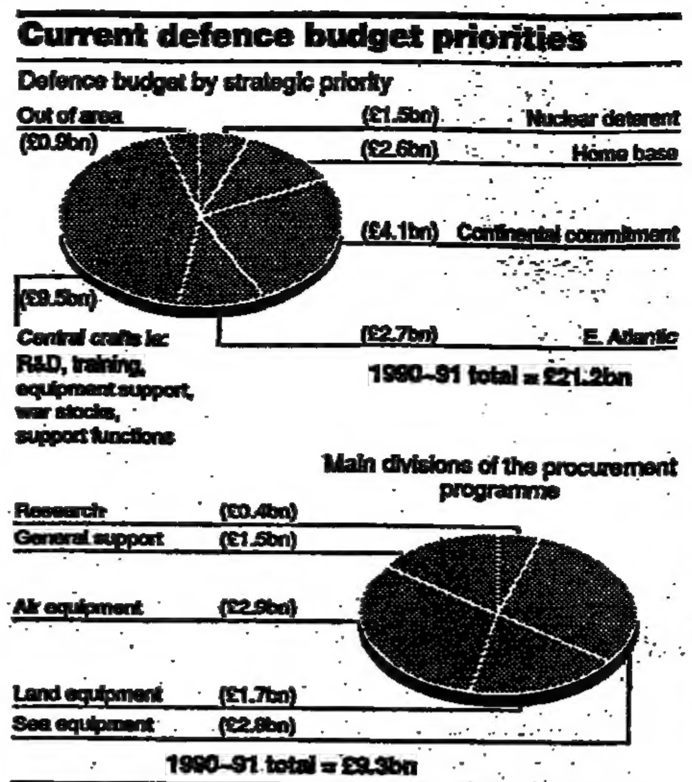
Justifying reasonable cuts in defence expenditure, The report said that there has been "an irreversible change" in the threat to the Central Front of Nato."

The collapse of the Warsaw Treaty Organisation as a military alliance meant that even the technical possibility of the Soviet Union mounting a surprise attack, rapidly reinforced, on the Central Front had "virtually disappeared."

The Committee warned, however, that the Soviet Union would remain Europe's strongest single military power for the foreseeable future, even when its forces were withdrawn behind its national frontiers.

The report was particularly insistent that Nato, which at the London summit earlier this month, had declared nuclear weapons to be arms of "last resort," nevertheless had to retain a credible strategy of flexible response.

Whereas such a strategy could be based on "a diminished spectrum of sub-strategic weapons," the nuclear deterrent had to remain credible so that Europe was not "made safe for conventional war", in the words of US President George Bush.



Gloom hits companies facing cuts

By Jane Fuller

GLOOM is gathering around the smaller UK companies that depend heavily on defence spending.

Their longer-term ability to survive in this - at least as independent operators - is being questioned. One analyst said the Government would tend to favour big suppliers to ensure the survival of a UK weapons capability.

A couple of the smaller companies have hit trouble unrelated to political spending decisions, but even those with good recent results have underperformed the market over the past year in anticipation of the cuts announced yesterday.

A prime example is Hunting, in which defence earnings played a leading role in a 42 per cent increase in pre-tax profit in 1989.

Hunting is particularly vulnerable because many of the weapons it makes are designed for battle in Germany.

Two companies which have got off rather more lightly are Vosper Thorneycroft, which is strong in mine-hunting vessels, and Westland, the helicopter maker.

Westland increased pre-tax profit by 44 per cent to £11.5m in the six months to March 31.

Analysts' greatest cynicism is reserved for companies experiencing problems of their own making. The worse case is Astra Holdings, a munitions and fireworks company that was on the brink of financial collapse before new management was installed in March.

Lex, Page 18

Unit trust industry has big monthly fund outflow

By Eric Short

THE UNIT trust industry last month suffered its biggest ever outflow of funds, amounting to £63.8m, as leading life companies began switching their holdings into direct equities.

Two life groups, Allied Dunbar and Standard Life Assurance, set what is likely to be a continuing trend when they pulled £243m out of unit trusts.

The move has been prompted by changes made this year to life companies' corporate tax structure.

Mr John Fairbairn, chairman of the Unit Trust Association, admitted yesterday that further switches by life companies could take place over the next 18 months.

The action would have two main effects on the industry, he said. It would significantly cut unit trust funds and would reduce future sales of units.

Life companies are major investors in unit trusts, usually of trusts they own through subsidiaries. At the end of 1989, life company holdings accounted for 44 per cent of unit trust funds, which then amounted to £58bn. If life companies switch only 25 per cent of their unit trust holdings, it will cut funds by about £6bn. Mr Fairbairn pointed out that the tax changes were already affecting unit trust sales.

Lex, Page 18

Britain fails to keep pace in patenting new ideas

By David Fishlock

BRITAIN is performing poorly in comparison with West Germany and Japan in patenting its ideas, according to the latest annual review of government expenditure on research and development.

Britain's rate of obtaining patents in the US (used as a relevant basis of comparison) has remained fairly constant for 25 years, but the rates for both Germany and Japan had increased rapidly to 2.5 times that of Britain by the late 1980s. Patent data – the best measure the Government has been able to find for productivity of R&D – is included in the annual report for the first time.

It says a statistically significant relationship had been established between per capita expenditure on industrial R&D and per capita volume of patenting activity in each of the member countries of the Organisation for Economic and Cultural Development (OECD).

Since patents can be applied for over the whole cycle of development and commercialisation, patent statistics reflect both inventive and innovative activities, it says.

The Government's contribution to the EC's R&D programme programme is set to rise from £128m in 1988-89 to £171 for the financial year just ended.

Brussels to investigate Toyota deal for signs of illegal aid

By Lucy Kellaway in Brussels

THE EUROPEAN Commission has opened a formal inquiry into what it believes was illegal state aid granted earlier this year to Toyota, the Japanese motor manufacturer, for the building of a £700m car plant in Derbyshire, central England.

The inquiry follows an investigation into the sale of Rover, the state-owned car group, in which Britain was found guilty of granting £44m in illegal aid to British Aerospace (BAe), its purchaser.

In an unusually blunt statement, the Commission says Derbyshire County Council seems to have given a hidden subsidy to the Japanese car maker by letting it have the land for the plant at less than the true market value.

The Commission's assertion was denied last night by the leader of Derbyshire County Council, Mr David Bookbinder, who said he welcomed the investigation. "There's been a lot of speculation about the deal. The enquiry should end it once and for all."

Mr Bookbinder insisted the land was sold at "the going rate" of £18.3m for a total of 580 acres.

The Commission says the council sold some 280 acres to Toyota for £9.9m, whereas the price established by the District Valuer was £12.6m. It notes that such a reduction would count as aid and therefore the Commission should have been notified at the time. It says the area does not qualify for regional aid.

A UK spokesman in Brussels played down the investigation, saying he was confident that no aid had been given but that Britain would co-operate fully with the inquiry.

The Commission is also to look at the price paid by Toyota for the neighbouring plot of 300 acres. The investigation follows complaints received in February that the total site had been sold for £18.3m against a true market value of up to £100m.

UK group to import S Korean cars

By John Griffiths

SOUTH Korean-built Kia cars, some of which are sold as Fords in North America, will be imported to the UK from next year under an agreement expected to be signed in September between Kia and MCL, a UK group which already imports Mazda and Polish-built FSO vehicles.

The deal, which MCL hopes will lead to sales of 20,000 Kias a year by 1995, may also help solve developing problems for MCL's 100-strong FSO (formerly Polski Fiat) dealer network as a result of the political and economic upheavals sweeping Poland and the rest of Eastern Europe.

Supplies of the Polish cars have been drying up as a result of the breakdown of the export distribution structures which have governed FSO's supplies of cars to the west for many years.

FSO, like other east European car makers, is also undergoing major internal change as Poland moves closer to the west. FSO is no longer using Polmot, the Polish export agency through which the business was conducted under the communist regime, but no replacement has been organised.

The result is that MCL has been unable to sign its usual yearly supply deal with FSO.

Supply constraints mean that FSO sales will be only 3,500-4,000 this year and executives of MCL, the importer, acknowledged the future of the franchise is uncertain.

The Kia import deal may thus provide an alternative franchise option for some of the FSO dealers.

BRITAIN IN BRIEF

CBI urges progress to 'hard Ecu'

The Confederation of British Industry (CBI) yesterday said that it supported the proposals for a "hard Ecu" of Mr John Major, the UK Chancellor of the Exchequer.

It urged the Government to progress towards the "business goal" of a single European currency by joining the wide 6 per cent band of the exchange rate mechanism. This should be done immediately – or at least ahead of the European intergovernmental conference scheduled for December. The UK should join the narrow fluctuation band of 2.25 per cent as soon as inflation was on a downwards trend.

Helicopter crashes into sea

A search was launched for six people who went missing after a Sikorsky helicopter plunged into the North Sea 100 yards from the rig in the Brent field, north-east of Shetland yesterday morning.

Seven other people, all employees of Shell or of contractors working in the oilfield, were pulled from the sea after the helicopter, an S61-registration G-BEWL belonging to Mr Robert Maxwell's British International Helicopters Limited, crashed. The search was hampered by fog.

US airlines vie for Manchester

Nine United States airlines are competing for two new routes to serve Manchester Airport.

The announcement follows a recent agreement by the British and American governments to allow two new US carriers to serve Ringway from spring next year.

The nine airlines which have applied are: American, Pan-Am, TWA, Delta, Northwest, United, Continental, TWA and USAir.

Car converter sales rising

UK sales of cars equipped with catalytic converters are likely to reach 110,000 units this year, a more than tenfold rise over 1989, according to vehicle market analysts Automotive Industry Data.

Statistics from AID in its latest newsletter show 9,941 catalyst cars to have been registered in the UK last year.

UK sales are still trailing behind some European markets, notably West Germany where, according to AID's figures, more than 1m catalyst cars were sold in the first five months of this year.

Stagecraft: US actor and Shakespeare look-a-like Gregory Bell yesterday voiced his backing for the £20m construction of New Globe Theatre on the south bank of the River Thames in London, where he posed close to the 400 year-old site of the original Globe, opposite St Paul's Cathedral

Statistical shake-up urged

A radical overhaul of Britain's official statistics was urged to restore public confidence in the "inadequate" government statistical services.

In a highly-critical report which took seven months to research, the Royal Statistical Society called for a complete shake-up in the way the Government acquired and disseminated information. This was in response to both a domestic and international crisis of confidence in the services and public concern that the Government was "fiddling the figures."

Call for EC police card

A report into international police co-operation published by the Commons Home Affairs Committee Committee found that the UK, unlike other EC countries, makes do with an outdated system of accountability, organisation and funding, and urged a number of proposals to improve cross-border co-ordination, including an identity card.

The Committee's recommended voluntary common EC identity card would be established by 1992. Mr Wheeler envisaged a "high-tech" card, carrying details including finger prints and medical records.

County hall project delayed

Proposals to redevelop County The announcement tonight follows a recent agreement by the British and American governments to allow two new US carriers to serve Ringway from spring next year.

Hall, once the headquarters of the Greater London Council, have been temporarily halted. Mr Chris Patten, Environment Secretary, has announced he would defer his decision on the future of the building.

Mr Patten's decision follows a public inquiry which raised objections to some of the developers' plans including a skyline considered to be too high. The County Hall Development Group, an Anglo-Japanese consortium, wants to redevelop the area into a conference centre, private offices and shops and proposes to turn the listed main building on the Thames into a hotel and apartments.

Saatchi slides

Saatchi & Saatchi advertising yesterday challenged figures which indicated it had lost its position as the largest UK agency for the first time since 1983.

According to MEAL, an independent monitor and analyst of UK advertising spending, Saatchi was supplanted in the year to June 30 by J Walter Thompson, which had led the league table before Saatchi's rise in the 1970s and early 1980s.

MEAL's latest league table credited JWT with handling brands advertising with a current annual value of £259.2m, 20.1 per cent above the previous year.

Saatchi's figure slid by 11.4 per cent to £240.9m in the same period.

But Mr Bill Muirhead, chairman of Saatchi & Saatchi Advertising, said: "We don't accept MEAL's figures. There are a lot of discrepancies."

Sailing delayed

The launch of Hoverspeed's wave-piercing catamaran service between Portsmouth, in England and Cherbourg, in France, planned for today, has been postponed for a fifth time because work on safety modifications is taking longer than expected.

New Archbishop of Canterbury appointed

Alan Pike on the surprise choice for the leader of the world's Anglican community

DR George Carey, Bishop of Bath and Wells, was yesterday named as the new Archbishop of Canterbury, the most senior clerical post in the Church of England and the head of the world Anglican community. He will replace Dr Robert Runcie who is to retire early in the New Year.

He has been Bishop of Bath and Wells, in western England, since 1988 and before that was principal of Trinity College, Bristol, for five years.

After the announcement the new Archbishop said he felt "dazed and unworthy". However, although he had been a bishop for only a short period, he had never shirked a responsibility or a challenge, he said.

Dr Carey is on the Church's evangelical wing and takes a traditionalist view on matters of Biblical interpretation. He stressed, however, that: "I never pidgeon-hole myself and reject it when others do it for me because it creates boundaries."

The appointment of Dr Carey caused some surprise in the Anglican community. At 54, he is relatively young to be appointed to the Anglican Communion's most senior post which he can occupy until he is 70.

He has, far more remarkably, been a bishop for only 2½-years – such a short period that he does not yet qualify to sit, like other bishops, in the House of Lords, the upper chamber of Parliament.

Dr Carey's position is unambiguous on the biggest internal issue facing the Church of England in the 1990s – he favours the ordination of women. This is a factor which is certain to have been debated by the appointments commission and Dr Carey's selection can be seen as recognition that the church is, in spite of some vocal opposition, likely to follow Anglican churches in countries like the US, Canada and New Zealand and accept women priests.

The tradition of church leaders speaking out on social issues which has often been personified around Dr Runcie will continue under the new Archbishop. Faith, said Dr Carey, had social and political implications and he could not be an "other-worldly archbishop." There had to be a creative dialogue between Church and State.

The new Archbishop grew up on an East London council estate, left school at 15 and began work as an office boy with the London Electricity Board.

After his national service in the RAF he trained for ordination and later obtained a Doctor of Philosophy degree.

Dr Carey learned last week that Mrs Margaret Thatcher, Prime Minister intended to recommend his name to the Queen from the two which, in line with the procedures, had been presented to Mrs Thatcher by the church-elected Crown Appointments Commission.

Archbishop Carey with his grandsons Simon and David

The commission made its choice two or three months earlier than expected, suggesting a strong degree of support for Dr Carey among members.

He said that while he disagreed with many of the views of Rt Rev David Jenkins, Bishop of Durham, who has, for example, questioned traditional teaching on the Virgin Birth, he recognised that the role of a teacher was not only to repeat scripture but to re-interpret it.

Dr Carey's recent pronouncements have included criticising the community charge or poll tax – which, he repeated yesterday, had caused hurt and concern to many people – and calls for stronger action on environmental issues. He said he and his wife Eileen, a nurse, had always adopted a simple life-style and he did not think this would change when he became Archbishop of Canterbury.

Some of the new Archbishop's views on church organisation are likely to be as challenging as any of his opinions about social issues. He has questioned the freehold system where clergy, once appointed, can seldom be moved from their posts and suggested yesterday that archbishops and bishops should be subject to regular performance monitoring "so that we have the highest professional standards."

Dr Carey will be enthroned in Canterbury Cathedral next spring. He will then, in effect, take on three jobs – bishop of the Canterbury diocese, Primate of all England and nominal head of the Anglican Communion's 27 worldwide provinces.

These combined tasks, with their heavy administrative and travel pressures, are widely regarded as constituting one of the toughest and most demanding jobs in public life.

Dr Carey said one of his concerns was that the church seemed light years away from many people. He wished to reassure them that the Church of England was for them.

MANAGEMENT: Marketing and Advertising

Marketing services

Lintas heads for the frontiers

Alice Rawsthorn reports on the US agency's aim of becoming an integrated force

"THIS is frontier stuff. The future for our business has to be providing an integrated service for our clients. There is demand out there just waiting to be met."

Ken Robbins, deputy chairman of Lintas Worldwide, is talking about the trend for advertising agencies to offer comprehensive marketing packages – with direct marketing, public relations and sales promotion as well as traditional advertising – to their clients.

Lintas, like most of the other large international agencies, is now working out ways of delivering such a service and of turning itself from a conventional advertising agency into a marketing services consultancy. Robbins and Bill Weithas, his chairman, see this as their over-riding objective for the early 1990s.

In the early 1980s Lintas' objectives were very different. The agency was then emerging from a flurry of corporate changes. It began in the 1920s as Lever International Advertising Service, the advertising division of Unilever, the giant consumer products group. Unilever later sold 49 per cent of Lintas to SSC&B, the US agency. It then sold the rest of its holding to Interpublic, the powerful US marketing group which bought SSC&B in 1979.

The outlook for the newly independent Lintas was far from encouraging. Interpublic saw it as a second international agency alongside McCann-Erickson, its original agency. Lintas not only had to adapt to life as an independent entity, but to avoid being overshadowed by McCann.

"It was a very, very difficult transition," says Alan Gottesman, an advertising analyst at Paine Webber in New York. "Lintas was effectively an in-house agency that suddenly had to hustle for business as a major league player. But it has succeeded. The record speaks for itself. No one ever calls Lintas the 'other Interpublic agency'." When Interpublic took full control in 1982, Lintas had billings of $1bn and 60 per cent of its business came from Unilever. Today it is the world's ninth largest agency with billings of $4.3bn, only 40 per cent of which comes from its old owner.

Bill Weithas (left) and Ken Robbins: over-riding objective

Lintas has added new international clients such as Coca-Cola, IBM and Johnson & Johnson to Unilever. So far this year it has won $200m of new business, although last week's loss of a DM60m media buying account for Unilever in West Germany was a blow.

The Unilever heritage is an asset in the international arena. At a time when other agencies are still struggling to establish themselves as multi-cultural businesses, Lintas – which was founded in Europe but is run from the US – has nine different nationals on its main board.

Weithas and Robbins are satisfied that Lintas' advertising network is now well established. Under Interpublic's ownership, Lintas has been able to fill the gaps. Three years ago it strengthened its position in the US by buying Campbell-Ewald. It has also acquired a string of regional agencies to take advantage of growth in areas like Atlanta, Florida and the West Coast.

The gaping gap in its European operation – the UK – was last year filled with the acquisition of Still Price Court Twivy D'Souza, a young London agency.

At first glance the two agencies, the staid Lintas and the energetic Still Price, seemed completely incompatible. "People looked and thought 'Wow, how can they ever overcome the differences?'," admits Robbins. "But there were also lots of similarities. Still Price was strong on strategy and deeply committed to brand building, just like Lintas."

The mechanics of the merger were left to the Still Price management. It was a relatively painless process. And Lintas now has a top ten agency in the important UK market.

Weithas and Robbins envisage some further expansion in advertising. They are keeping a keen, though cautious eye on eastern Europe. But the main focus of expansion will be into other marketing disciplines.

They are convinced that the future for advertising agencies lies in offering comprehensive marketing services. Most of the established marketing groups, such as Young & Rubicam and Saatchi & Saatchi, offer the different marketing disciplines from different subsidiaries. Weithas is convinced that Lintas should offer an integrated service from a single source.

"We are talking about a co-ordinated communications package," he says. "What we do not want is to have separate divisions all vying for the client's attention and a piece of the action."

One of the main obstacles for Lintas, and for all the other companies assembling such a service, is that few of its existing employees have enough experience outside advertising. It has addressed this by establishing the 'Lintas University', within the University of Chicago Business School, where its executives are sent for three one-week courses in integrated marketing. The courses began a year ago and over 100 have attended so far.

Another problem is that Lintas needs to strengthen its interests outside advertising. It is doing so by start-ups and, in some cases, by acquisition, although Weithas says it is really more interested in "acquiring people than assets".

Lintas has already established a base for its communications business in the US; it is keen to expand in public relations where it only has an associate investment. But it still has a long way to go in Europe.

The critics of the "integrated" approach argue that the level of demand for truly integrated marketing services is still very low and that most clients are simply not structured – in terms of decision making and budget allocation – to commission the different disciplines from one source.

Bill Weithas believes that change is inevitable. He cites the example of the account for Sara Lee, the foods group, which Lintas recently won in the US, where only half of the $100m budget will go on traditional advertising.

"We are not suggesting that there will be a big shift towards integrated services," he says. "But it is the way ahead and we have got to be ready."

Telling it like it is

Eastern Airlines believes honesty is the best policy. **Alice Rawsthorn** reports

Corporate advertising is usually a sugary affair. The ingredients are stirring music, aesthetic imagery and a homily to the sponsor and all its good works.

Sugary is scarcely the word for the latest US campaign from the crisis-torn Eastern Airlines. The Eastern campaign, created by Ogilvy & Mather in New York, marks a watershed in the world of corporate advertising.

The campaign stars Martin Shugrue, the trustee who was appointed to run the airline by the bankruptcy court. One commercial shows him listening to the complaints of former passengers who have forsaken Eastern for other airlines. They criticise it for everything from dirty planes to lousy food. Another ad shows him telling employees about the "large, deep hole" their company has to haul itself out of.

Instead of shrugging off the complaints or glossing over the problems, Shugrue is uncompromisingly blunt. "We cannot promise you the moon because we cannot deliver it," he says. "What we can promise is that for the next 100 days Eastern is going to get a little better every day."

Martin Shugrue: Eastern's 'uncompromisingly blunt' trustee

It could be argued that Eastern can afford to be blunt about its problems because it has nothing left to lose. In the last year or so it has staggered through almost every conceivable corporate crisis from shutdown to bankruptcy. The company made a crippling loss of $852m in 1989.

Only last week Shugrue told a creditors' meeting that the losses for 1990 would be higher than the $330m originally forecast.

Eastern desperately needs to win back the business passengers, on whom it depends for high ticket fares, who have drifted off to other airlines.

Bill Hamilton, executive creative director of O&M, says the agency reckoned that all the US airlines, not just Eastern, were in such a terrible state that: "The first guy who told it like it is would win a lot of credibility with customers."

Yet the Eastern campaign is also an extreme example of the general trend for corporate advertising to become less eulogistic. Some of the current crop of UK corporate campaigns – while nowhere near as uncompromising as the Eastern ads – are much more pragmatic than their predecessors.

The latest campaign for Shell, by Bartle Bogle Hegarty, deals with the oil group's environmental policies in a deliberately down-to-earth way. The new commercials for Fuji film, created by Howell Henry Chaldecott Lury, focus on hard-hitting social issues.

As the number of corporate campaigns looks set to increase, agencies will have to become more subtle and sophisticated in the way they construct them. The era of the sugary corporate commercial is probably over. But it remains to be seen whether other advertisers will be brave enough to be quite as blunt as Eastern Airlines.

Frisps — the premium crisps

Get ready for Frisps. As if not sated already with the tonnes of Hula Hoops, Wotsits and Discos they consume each year, Britons next month will have another savoury snack to choose.

The launch of Frisps is a pre-emptive shot by KP Foods, United Biscuits' snack foods subsidiary, in what it expects will be a fierce global war with PepsiCo; its Frito-Lay unit has been the clear US market leader for many years.

Frisps, a rippled crisp look-alike reconstituted from dehydrated potatoes, illustrates the huge investment required in launching a new brand in the £1.2bn UK snacks market. KP plans to spend nearly £8.5m on Frisps – £4m on manufacturing and £4.4m on marketing in the first seven months alone.

Of the marketing spend £4.2m will be advertising support by Lowe Howard Spink in two bursts in September and February, and £200,000 on coupon promotions. For the latter exercise, KP is using Reed Publishing's Coupon Book to reach 6m households.

"Crisps are seen to be fairly serious, fairly unexciting products," says Iain Paton, marketing controller for new product development at KP. "We were looking for a savoury snack with mainstream appeal, but slightly adult-biased."

Because it is not made from whole potatoes, the new product is technically not a crisp but a savoury snack, a sector in which KP has maintained its lead over the combined shares of Walkers and Smiths, both owned by PepsiCo.

Such an arbitrary distinction is unlikely to figure much at the grocery counter or in the sweet shop. "To the customer, it's a crisp," Paton concedes. However, KP hopes that Frisps will be perceived as different enough to make a 1p per packet premium palatable.

Frisps is the first snack which KP has lifted from Keebler, UB's US subsidiary. Keebler has diversified in recent years from its cookie heritage to become the third largest US savoury snacks group. One large factor in its success was Ripplins, the US version of Frisps. Launched last year annual sales are now $93m.

Ripplins was the losing finalist in the competition on what to name the UK product. It was rejected because consumer test groups perceived it as too "feminine". Frisps, by contrast, came across as implying "light and fresh." Other names which were tested against Frisps – but found wanting – included Crispins, Merits, and Stripes.

KP must try to avoid cannibalising sales from its standard crisps, Real McCoys premium crisps or its many snack brands. Simon John of Coley Porter Bell, the consultancy which designed the packaging for Frisps, as it did for McCoys, argues that the new product will "re-stimulate" the market by bridging the crisps and "concept" snacks gap.

KP's rivals will watch the launch with interest. Golden Wonder, the Dalgety subsidiary which many industry analysts believe may be squeezed between KP and PepsiCo, plans to launch at least one new product in the next two months. In the meantime, it is increasing the packet size of all its crisps and snacks from 28g to 30g without raising prices.

But what is PepsiCo planning? Neither of its separately managed UK snack companies has launched a major product since the change of ownership, a state of affairs KP expects will end before long, perhaps with the introduction of Cheetos from the US. John Cullip, commercial director of Walkers, the largest of the two PepsiCo units and clear leader in the crisps market, gives nothing away, but suggests that PepsiCo will concentrate on fewer products but with broader appeal.

Clay Harris

TECHNOLOGY

Milking the cow's medicine

Milk is known universally to be good for people – but none perhaps as beneficial as that from 1,200 New Zealand cows involved in a test programme to produce milk specially developed to treat or prevent a range of human ailments from arthritis to toothache.

Animals, as well as humans, produce their own protection against diseases. Cows are unique in that not only can they produce antibodies for bovine diseases, but can also produce antigens to fight the diseases suffered by other animal species. This protection can also be extended to help combat viral infections such as the common cold.

The initial technology for the New Zealand project was developed in the US by Stolle Milk Biologics, which is involved in the test programme jointly with the New Zealand Dairy Board.

Cows are injected with the particular bugs and left to develop the immune system for the disease these cause. Anticipating objections from animal lovers, the New Zealand Dairy Board points out that cows in the programme receive fewer injections than cows in a normal dairy herd providing milk for consumption.

The milk from the eight herds is being turned into milk powder under carefully controlled conditions and the appropriate antibodies extracted. In the case of tooth disease the particular antibody will be included in toothpaste.

The antibodies also help the human body build up its own defences against disease. They will fight organisms causing gastric disorders, diarrhoea and vomiting and help reduce high blood pressure and inflammation which creates pain in arthritis sufferers.

It is also hoped that the special milk will lower blood cholesterol levels and be effective in preventing acne. Extensive tests so far have shown no side effects when used in the treatment of any of the nominated diseases. Milk Board officials say never has the slogan "milk is good for you" been so apt.

Dai Hayward

Richard Sykes, chairman of Glaxo's research activities, speaks to **David Fishlock**

Deep roots of a drug's development

Richard Sykes has a simple view of his role as research director of Glaxo, the pharmaceuticals group. He is spending more than £400m a year running an international research business with just a handful of clients.

His products, he says, are truckloads of paper relating to the safety and efficacy of new drugs. His job is to write drug applications in such a way as to persuade national regulatory agencies to accept his case for licensing the drug.

Glaxo Group Research Limited is the source of Glaxo's latest prescription medicines such as Zofran, to treat vomiting in cancer patients, and Flixonase, a steroid for hay fever. He manages 5,500 people, mostly in Britain but some in another eight countries. In the last five years his budget has quadrupled. He has a capital investment programme of £200m for each of the next four years.

Sykes, 47, is a microbiologist who first worked for Glaxo in the 1970s when he helped invent an injectable antibiotic. He was "brain-drained" back from Squibb in the US in 1986, when the company recognised that it was inadequately prepared to cope with the highly productive machine for discovering potential new drugs set up by his predecessor, David Jack.

People talk of research and development as if they were two sides of the same activity. Sykes sees them as quite separate cultures, even requiring different kinds of scientist. "People who discover drugs have a different approach from people who develop drugs."

Glaxo research was – still is – rich in people driven by the desire to invent what the industry calls new chemical entities which, if proved sufficiently efficacious and safe, might make new drugs.

Drug development, on the other hand, is a pragmatic activity, requiring a highly resilient and phlegmatic kind of scientist who can cope with the idea that most of his potential new products are going to fail. Development provides the data by which the proposed new product will stand or fall.

Both activities need to be managed. "Allow total freedom and you get havoc," Sykes says. From the early-1960s David Jack sought to cultivate a strong culture of discovery, the root of Glaxo's lucrative product portfolio today. This culture produced what Sykes says was missing in the mid-1980s, an organisation to sift the rich crop of new chemical entities for the potential money-spinners.

Since 1986 Sykes says he has hired about 1,500 scientists, mostly for development. He recognised, too, that his research and development activities needed something to bind them, which he calls "exploratory development", an activity lasting one to two years before the serious commercial questions about manufacture and markets are raised.

Sykes runs his research activity through research management committees (RMC), one for each of the seven areas of chemotherapy – cancer, cardio-vascular, central nervous system, gastro-intestinal, infectious diseases, metabolic and vascular diseases, and respiratory diseases – which Sykes helped the company identify as central to Glaxo's longer-term interests. The scientists themselves decide what goals to pursue. Project leaders report their progress to the appropriate RMC. The drug discovery activity is integrated through a research management matrix.

The tally since Sykes put his new research structure in place is two new medicines approved, five more filed for approval and three to be filed this year

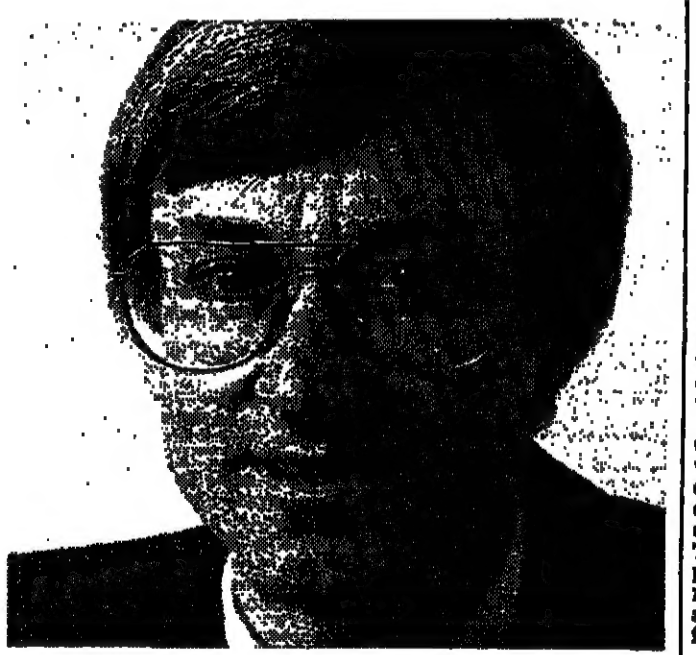
When a project director convinces his RMC that he has achieved an objective – a new chemical entity with interesting prospects as a medicine – its chairman reports to the Exploratory Development Committee (EDC). This is a committee of all Glaxo's top development managers. "It's a very important interface and in many ways unique to Glaxo," Sykes claims. He chairs the EDC himself.

The EDC is a filter which two new chemical entities out of every three, on average, fail to pass. His philosophy is that as soon as a substance begins to fall short of its objectives, "kick it out."

Substances that survive will enter a costly development stage "when we really start to spend money". Typically clinical testing will take from three to six years – much longer for a chronic therapy to treat mental illness or heart disease than for a one-shot therapy to treat an infection. Earlier this month he filed for a product licence for a treatment for migrane on which Glaxo began its research and development in 1972.

Development is organised into seven development groups, corresponding to the seven research groups. Glaxo has always been good at development – witness ranitidine (Zantac), which took six years, says Sykes. What it lacked was a way of managing the large number of new chemical entities being discovered. Today he has about 16 in exploratory development, including compounds for treating AIDS and herpes, and another eight in full development.

Development is when the case is compiled for the regulatory body such as the US Food and Drug Administration or the Committee on Safety of Medicines. Typically this case runs to 80-100 volumes of data on the efficacy and safety of the substance. The case for Zofran tablets to curb nausea and vomiting in cancer patients, which earned Glaxo Research plaudits from the regulators, ran to 80 volumes of 500 pages each.



Richard Sykes: 'People who discover drugs have a different approach from people who develop drugs'

Earlier this year Sykes received a letter from the chairman of the Committee on Safety of Medicines, Britain's regulatory body, complimenting the company on "the high quality of the application and expert report."

For Sykes, the clear objective of development is to assemble data in a logical, concise and unambiguous way. Every time the regulator writes requesting clarification or extra data, it means a three-month delay, he says. The regulator is a client he must try to satisfy by the way he drafts his new drug application. He is someone to work with, not against.

The tally since Sykes put his new research management structure in place is two new medicines approved, five more filed for approval with the regulators and a further three likely to be filed this year. In addition, he has about 16 more new chemical entities in exploratory development, of which he expects five or six to enter full development.

His target is a minimum of one major new medicine launched commercially each year, and three or four new variations on existing products.

When Sykes took charge, Glaxo's R&D was confined to Britain. Today it is an international R&D operation with about one-third of the activity outside Britain. Investment in international R&D, mostly in eight other countries led by the US, is co-ordinated by Glaxo International Research of which Sykes is chief executive. A new research centre is nearing completion in Italy, and another is planned at Tsukuba in Japan.

The commercial success of the gastro-intestinal drug Zantac helped highlight the weaknesses of the group, including its need to become far more international. Today, outside Britain, its biggest effort on drug discovery is in the US, where Sykes has a team of 200, compared with 1,300 in Britain. The US now leads Glaxo's research in cardio-vascular medicines. Glaxo is building a $350m R&D centre at Triangle Park, North Carolina, for a team of about 1,000.

In Geneva Sykes bought the former Biogen laboratories to obtain ready-made expertise in genetic engineering for his research empire. This team of 70, renamed Glaxo International Molecular Biology, provides his company with entry to an enabling technology now seen as a potential source of new medicines that previously had not been recognised by Glaxo, Sykes says. By 1995 he expects to preside over an international research and development organisation of 6,500 people.

Documents travel with their formats

Anyone who has created a stylishly formatted document on a word processor only to find that the recipient's system cannot translate the layout and diagrams, will appreciate a standard which is coming to fruition this year as part of the computer industry's move towards "open" systems.

The International Standards Organisation (ISO) has been working with computer suppliers for the past eight years to define various levels of office document architecture (ODA). The architecture offers computer users a means of transmitting structural information as well as rules for editing and formatting a document.

Systems which offer ODA encode the document into an official style which the receiving system will decode back into the original format. This allows documents to be transferred and displayed on previously incompatible systems, and will also ensure that documents can be archived and edited on future technology, regardless of how different they are to current systems.

ODA is the document version of the electronic data interchange (EDI) standard. Already many businesses have implemented EDI to exchange data such as invoices and orders, to save retyping and potential errors and to reduce printing and mailing costs.

Electronic documentation standards exist for specific industries such as military and publishing. But until now there has been no common standard for the general business user, who produces documents mostly on basic word processors. These various standards are beginning to be brought together into a single version, which might eventually become mandatory for Government suppliers.

The US Government originally defined computer-aided logistics support for defence suppliers to produce technical documentation in machine readable format, while the publishing industry is beginning to use the standard generalised markup language (SGML).

"Every industry should start thinking about providing an infrastructure for moving multi-media documents both internally and externally. There is a move towards international standards covering multi-media documentation and we will see a standard that covers both SGML and ODA," says Jenny Edmondson, DEC's document marketing manager.

Edmondson adds that while these standards may be mandatory for some suppliers, other businesses such as pharmaceutical companies see ODA as a "competitive weapon". Being able to send a document to various specialists and departments, to be updated electronically and immediately forwarded to the regulatory authorities, should give an advantage over competitors still relying on updating and mailing paper documents.

Given that 90 per cent of all business information comprises text and multi-media graphics-based documents, the emergence of common protocols should bring tangible benefits to most computer users.

A demonstration of ODA was given to the public this year at the CeBit'90 exhibition at Hanover, Germany by several leading computer manufacturers including DEC, ICL, Siemens and Bull. Documents were sent and displayed in their published format between the different systems. These manufacturers have agreed to produce software conforming to ODA. Some vendors, however, have only announced support for the standard at this stage.

All the vendors are releasing the ODA software initially under the Unix operating system now available on most makes of computer from the largest to the smallest.

The ODA standard has been supported by the EC as part of Esprit programme and it has the backing of various European user groups.

While suppliers still struggle to cope with basic text and diagram layers at this stage, the ODA standard is designed to incorporate extensions and advances in technology, such as colour, spreadsheets, sound and full motion video.

Additional features could include a live link back to the computer of the originator's system, allowing data in a report or proposal to be updated automatically before it is read.

Leslie Tilley

FINANCIAL TIMES SURVEY

What's happening on the waterfront Pages 2 and 3

SOUTHAMPTON

'Howards Way' local authority turns tour operator Page 4

Thursday July 26 1990

Having partially recovered from the mid-1980s doldrums, Southampton could become an important European gateway as a base for high technology industries wishing to take advantage of opportunities offered by the European single market, writes Stewart Dalby

Renaissance is under way

IN THE 1980s, Southampton was poised to join Britain's growing list of so-called post-industrial sunrise towns. It may well still, but first some pieces of the infrastructural jigsaw must fall into place.

Glasgow, Bristol, and Swindon are all old manufacturing centres which have undergone regeneration through the development of service industries and other forms of new investment.

In Southampton's case employment was centred on the port and related shipbuilding, ship repair and other engineering. Specifically, Southampton was known as the starting point for transatlantic liners. This business died a sudden death more than 15 years ago (although cruises in the shape of the QE2 and the Canberra are currently undergoing a small revival).

The ferries to Europe transferred to Portsmouth more recently. The port at one stage probably employed 10,000 people directly and indirectly. The docks themselves rationalised both in terms of men and land because of increased mechanisation.

The industrial shake-out of the early 1980s meant large job losses. In 1985 male unemployment was 16.3 per cent and female unemployment 9.7 per cent for an total unemployed of 13.8 per cent. It stayed substantially above the national average and high for the south. At the end of last year it was 6 per cent and only this year has it fallen to the national average.

As with other inner city areas, pockets of very high unemployment remain. The Bargate ward still had unemployment of 13.7 per cent at the end of last year; working-class districts Freemantle and St Luke's had levels of 8.9 per cent and 11.1 per cent respectively.

Not all the old-style industries disappeared. Pirelli, STC, BAT, Martini and AC Delco have stayed in Southampton as has the working port, as well as some ship repair and shipbuilding. Some may be planning to move out and others are slimmed down versions of their former selves.

But the fall in unemployment overall since 1985 has been due largely to the influx of service industries.

According to the Department of Employment's Census of Employment, manufacturing jobs fell by 25.2 per cent between 1981 and 1987 from 23.4 per cent of the total to 17.9 per cent. In transport and communications the fall was one of 32.4 per cent, so that in 1987 only 10.5 per cent of workers were employed in this sector compared with 15.3 per cent in 1981.

The biggest increase was in banking, insurance, finance and business, up by 31 per cent over the period, but from a low base. By 1987 some 12.7 per cent of the workforce of 106,499 were employed in this sector.

Employment in all services rose by 28.5 per cent between 1981 and 1987 – ranging from financial services to central and local government, cleaning, personal and domestic, welfare, education.

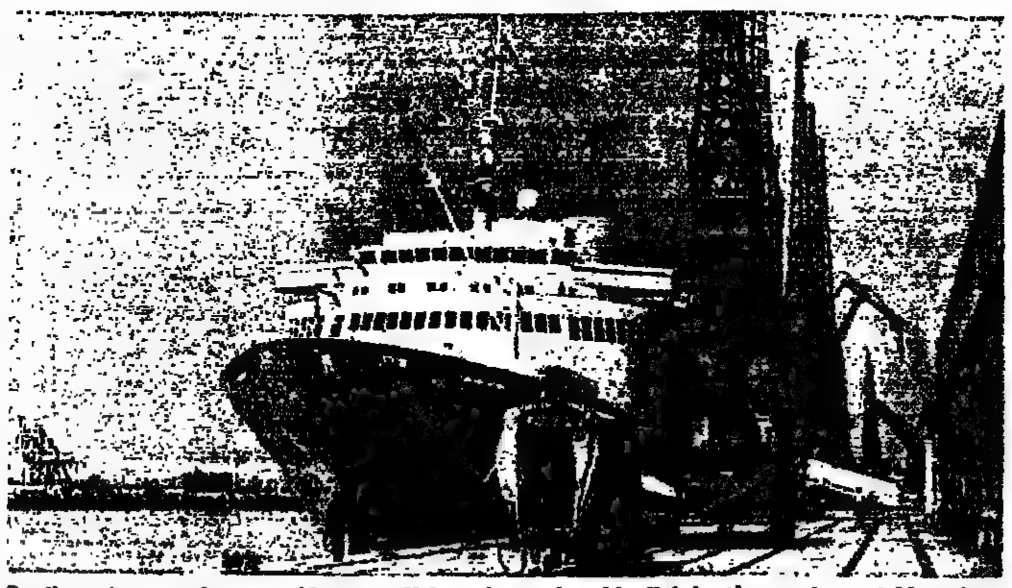
It is useful to have this broad definition because the city, for example, has large health service sector employment. There is the regional health board and a number of hospitals plus a medical faculty at the university. A total of some 12,000 could be employed in health. Also, there is substantial employment in education, not only around the university, but at numerous other colleges and educational establishments.

The city has been trying to attract tourists, using the bait of an attractive waterfront, its Roman and Norman remains, and its proximity to the New Forest and the Isle of Wight.

There are lots of parks. There is first division football and a county cricket team in Hampshire. The Mayflower theatre has been refurbished by Southampton City Council and now claims to be the largest theatre in the south of England. All of these activities, widely defined, mean service sector jobs.

But growth has not just come from service jobs. On its periphery, manufacturing growth has also been notable. Southampton's boundaries are tightly drawn, and like other old port or industrial cities it has been losing population.

Hampshire County Council's population and dwelling forecasts for 1987-94 predict that the city's population should fall by 5.9 per cent to 194,400. Conversely, towns and areas on its periphery have grown rapidly. In the same period the Test Valley is set to grow by 19.8 per cent to 110,600, Eastleigh by 17.8 per cent to 110,000 and Fareham by 20 per cent to 106,900.



Southampton remains a working port. Yet marina and residential developments are taking place due to land reclamation and because Associated British Ports is the sole property owner

It is around some of these towns that the new business and science parks have sprung up with more of an emphasis on manufacturing.

The reasons given for Southampton's renaissance are many and varied, depending on whom you ask. But when claims and counterclaims subside, the city appears to furnish proof of the old estate agents' adage that there are three reasons property takes off – location, location, and location.

Associated British Ports (ABP) is happy to leave the impression that the ball got rolling after it decided in the early 1980s to use some of its waterfront land for three large mixed property developments, including Ocean Village.

Others say the boost came as a result of vastly improved communications. Electrification of the railway line means trains take 67 minutes to London's Waterloo. The M3 reaches south from London as far as Winchester.

For companies, the city offered the "attraction" of high unemployment. Labour was not only readily available and cheap, but was relatively skilled. So too was property. Building activity in the docks area and elsewhere meant rents were low for most of the 1980s and are only now reaching £15 a sq ft.

Everyone, however, of whatever political persuasion pays tribute to the Labour council and its leader, Mr Alan Whitehead.

He says: "When we achieved power in the mid-1980s we realised something had to be done quickly. The old Conservatives had no offices in the civic centre and were doing everything by post."

Mr Whitehead feels there is still some way to go in the development process. The M3, which at present does not link up with the M27 on Southampton's periphery, still needs to be completed. Agreement for the link has at last been given, and controversy over routes around Winchester appears to have been resolved.

Equally controversial as far as Southampton's future is concerned are plans by the entrepreneur Mr Peter de Savary to upgrade the airport at Eastleigh. He wants to have what has been termed a brief-case airport, which would form an air bridge for businessmen and freight not just to Caen and Le Havre in northern France but to other key destinations on the Continent.

The business community feels the city is badly in need of a good four-star hotel, preferably with conference facilities.

Mindful of the expensive congestion that has arisen in other towns with such projects, the city council has an ambitious scheme to develop a mass transit railway.

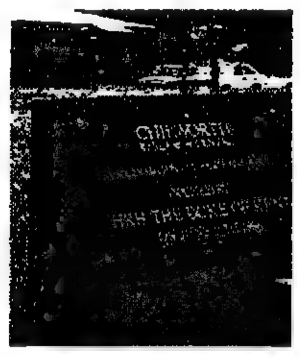
In terms of costs of running offices and factories Southampton has an unusual geothermal scheme which is cheap and could be expanded.

Most of these developments will probably go ahead, but there is a question over timing. Some people argue that, as the UK economy appears to be edging perilously close to recession, Southampton has more shops and offices than it needs and speculative building should halt. Hampshire County Council has become very conservationist and wants to stop speculative developments around the town. As a result, the city's sunrise may be postponed just a little.

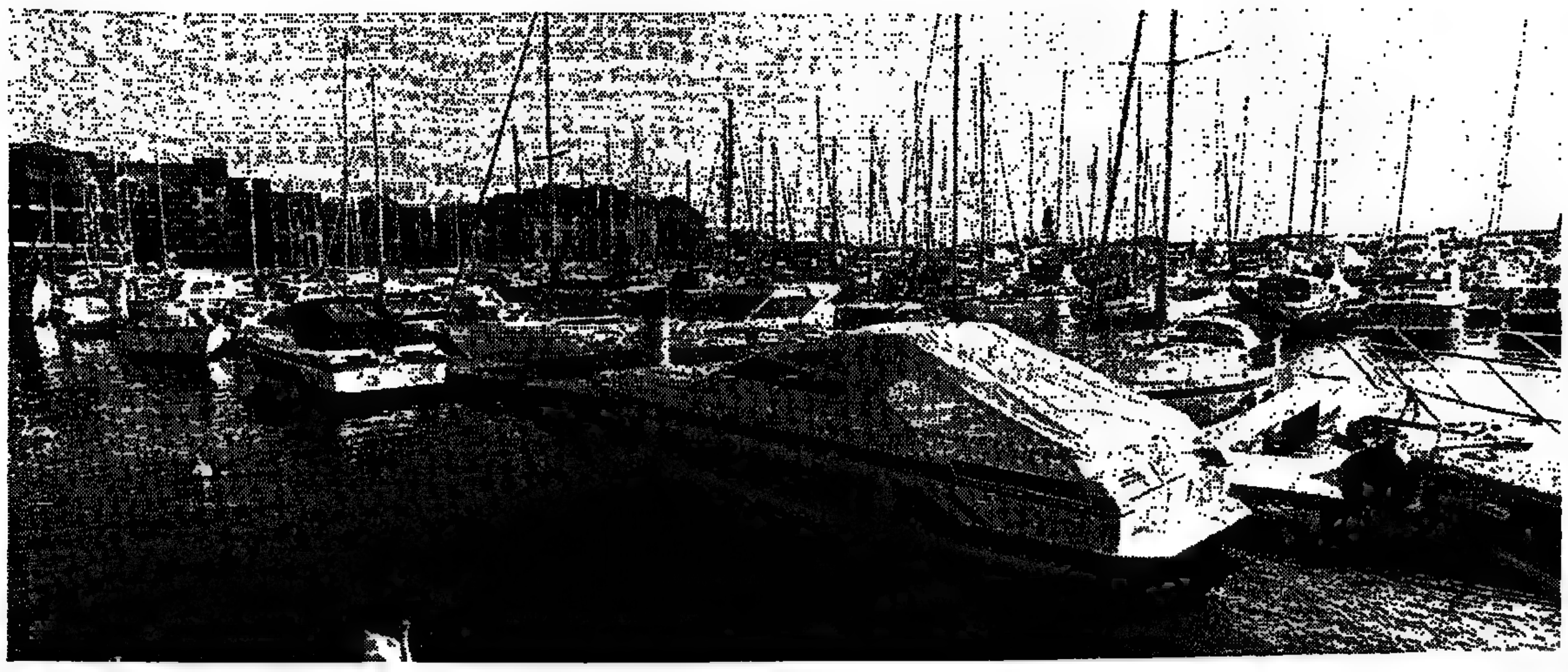
IN THIS SURVEY

The port adapts to change

With Roman and Norman remains Southampton is trying to develop its tourism.

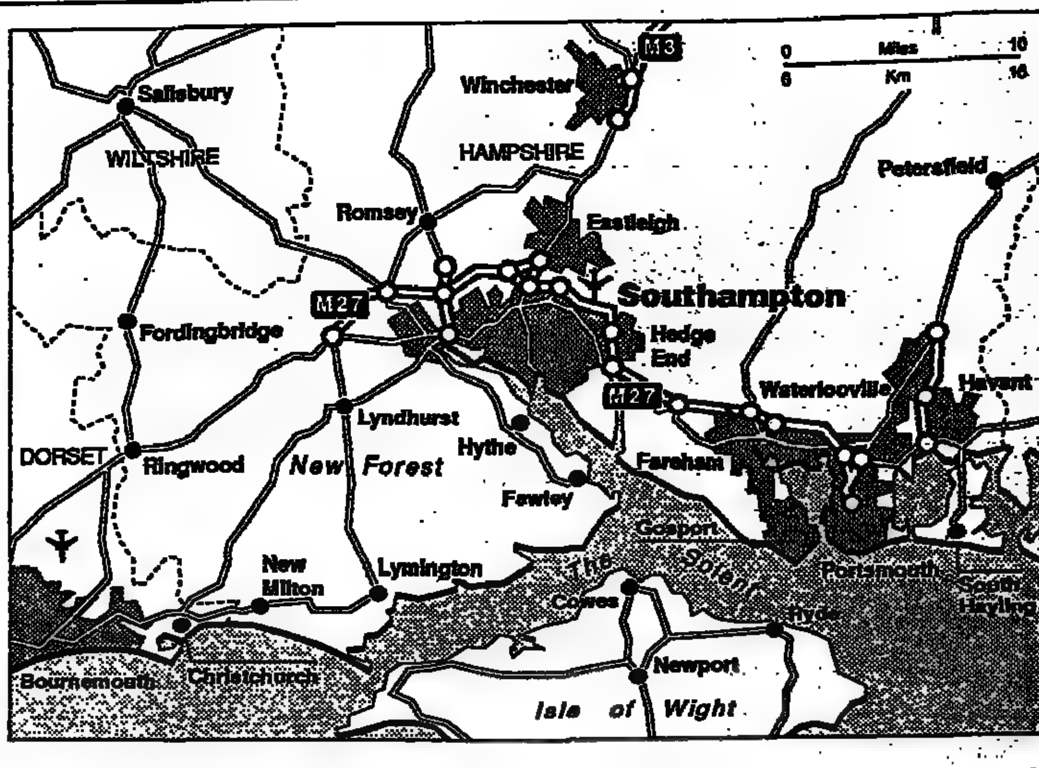


■ *(Above) Chilworth Research Centre (see p 4)*



Ocean Village, where redevelopment, involving several housing complexes, is now under way

Tony Andrews



The transatlantic liners have disappeared, but that is not the end of the story, writes **Stewart Dalby**

Port still thrives on new business

THERE HAS been a port at Southampton of some kind for 2,000 years, ever since the Romans fortified the area to protect their capital at Venta Belganum, now Winchester.

It was the port from which the Pilgrim Fathers set out for a new life in the Americas in the Mayflower and Speedwell in the 17th century.

But it is probably most closely identified with the huge transatlantic liners which took the rich and famous across to the US.

This trade died a sudden death around 18 years ago for one simple reason – it was cheaper and quicker to go by aeroplane. More recently, Portsmouth became the UK port for the ferries to France. But no-one in Southampton regrets them, since they apparently did not make much money for its port. Southampton as a port, however, did not fade away with the decline of these passenger businesses.

The waterfront seems quieter, less busy and less grand than it did. Yet it is still very much a working port and a flourishing one.

If the docks appear not as frenetic as before, this is partly because with mechanisation of cargo handling and other functions, fewer people actually work on the waterfront.

This is a process which was accelerated by the ending of the national dock labour scheme last year.

According to Mr Julian Gollogly, public relations officer for Associated British Ports, which has run the port at Southampton since privatisation in 1982: "We no longer employ any dock workers, technically speaking."

All employees are deemed "other staff" since the dock scheme ended, and there are

The waterfront seems quieter, less busy and less grand than it did

now 346 of these compared with 1,333 in 1983. Before the demise of the scheme, Southampton had 136 registered dock workers, and one stevedore company currently undertaking work is thought to have a similar number of staff.

The impression that the port is in decline is accentuated by the developments in the eastern docks. The waterside projects of residential, office and leisure buildings have led some to believe ABP is more interested in becoming a property developer than in running a working port.

But that is not the case. One of the reasons that ABP started to go into property development in the mid-1980s is that it suddenly had more land available. This was not so much through rationalisation of port activities, although that played a part. Simply, massive land reclamation added to the stock.

Mr Gerry Thomas, regional property manager for ABP, says: "Some of this land is worth £1m an acre in development terms. It costs far less than that to reclaim an acre of land. So it is obviously a profitable proposition to use land for non-port development."

The port itself has quietly developed since the early 1980s. Mr Gollogly says: "We do not like to promote ourselves as the biggest UK port in either this or that activity. We claim that we are a major intercontinental deep sea port. We are one of the three leading ports in the UK overall."

Southampton has a unique "double tide" which gives it 17 hours of rising water in any given 24 hours. This greatly diminishes most of the drawbacks of the tides. The deep water most of the time means Southampton is particularly suitable for accommodating large vessels.

The port has become big in the container business. This centres on the Prince Charles container terminal which covers 94 acres. In 1988 Southampton had a throughput of 300,000 container units.

Figures for 1989 could be misleading because of more than usual disruption due to the ending of the dock labour scheme.

The port has also become prominent as a car exporter. Roll-on roll-off ferries carry 240,000 cars a year. Renaults, Fiats, Lancias and Seats are brought in. Austin Rovers, Jaguars and Range Rovers go out.

Southampton remains an important passenger port. There has been something of a revival in the cruise business. The QE2 does not ply across the Atlantic as often as its forebears, but there are shorter cruises to the Mediterranean and the Canary Isles. In 1989 nearly 120,000 passengers travelled on liners to and from Southampton.

Some 1.3m passengers went on the Red Funnel ferries, owned by ABP, to the Isle of Wight. Some 300,000 cars also made the journey in 1989.

A newer line of business is bulk cargo. In 1989 Southampton handled over 1m tonnes of grain, making it one of the biggest grain handlers in the country. It also deals in other bulk cargoes, such as cement and aggregates.

Shorter cruises to the Mediterranean and the Canary Isles

One area which has not flourished is the free trade zone. Like other zones in other ports, this does not appear to have taken off, and there is some suggestion that the area of berths (101 to 104) currently designated for the zone might be used as a trade or exhibition centre.

Officials at the Civic Centre would also like to see more ship repair undertaken in Southampton. If this cannot be done at the Trafalgar dry dock on Queens Quay, then they would like to see an expansion of activity at the King George dock.

Mr Thomas makes the point that of the 10km of quayside owned by ABP, only 2.6km has so far been earmarked for non-port type developments. Behind the quays ABP has a lot of land which can be used either for warehousing or light industrial development as well as expansion of ro-ro and container facilities.

In spite of any appearances to the contrary, Southampton seems likely to develop further as a major working deep sea port.

KEY FACTS

Population .... 197,400 (1989), 206,600 (1981), 194,400 (1994 forecast)
Greater travel to work population ..668,500 (1989), 627,000 ('81), 691,000 ('94 forecast)
Unemployment (last quarter 1989) ..... 6 per cent (women 4 per cent, men 7.2 per cent)

EMPLOYMENT BY SECTOR (1987)
Manufacturing .... 17.9 per cent (change 1981-87 -25.2%)
Transport .... 10.5% (change 1981-87 -32.4%)
All services .... 46.2 per cent (change 1981-87 +28.5 per cent)

COMMERCIAL AND INDUSTRIAL PROPERTY COSTS
Office rents, prime B1 sites .... £17-15 a sq ft
Other rents .... From £10 a sq ft
Prime industrial/commercial land along waterfront ..Up to £1m an acre
On the periphery .... Around £500,000 an acre

Inner city terraced houses .... From £30,000
Semi-detached houses .... From £50,000
Four-bedroomed detached houses ....£100,000 to £150,000

Manufacturing companies .....Pirelli, Vosper Thorneycroft, BAT, Ford Motor
Service companies ....Skandia Life, General Accident, Coopers and Lybrand

Rail links ...... London (1 hr 7 min), Bournemouth (28 min), Birmingham (3hr 15 min)
Road links ... A33/M3 is 2 hrs drive to London. Because of M27, Poole and Bournemouth are easily reachable as is Portsmouth. Also links with M4, Midlands and the North

Further information .... Economic Development Unit, Southampton City Council, Civic Centre. tel (0703) 832587, fax no 832424

Stewart Dalby explains why much of the city centre looks like a building site

Schemes will transform the docks

EMERGING from Southampton rail station, one may gain the impression that all of the city centre is one great building site. To the left, up the hill, a BBC regional headquarters is being built around the Civic Centre, and opposite the centre the Marlands shopping complex is under construction.

The most extensive developments, however, are down on the waterfront, most of which is owned by one landowner, Associated British Ports. It is these schemes which many argue have been the key catalyst in the regeneration of Southampton as a business and leisure centre.

ABP has building projects under way at 12 of its 21 ports in Britain. The three big schemes are in Cardiff, Southampton and Hull. Eventually, Cardiff could be the largest development as ABP is the major landowner within the 2,700-acre area of the Cardiff Bay Development Corporation. But Southampton is probably the second largest scheme and is the most advanced.

The waterfront developments at the moment comprise three core schemes, covering 137 acres. These are: Ocean Village, 75 acres surrounding a marina at the side of the River Itchen; the Queens Quay, 24 acres at the head of the Old Trafalgar Dock and Town Quay (38 acres).

The schemes were conceived in 1981 when Mr Gerry Thomas, the regional property manager for ABP, realised that because of the ending of most of the liner trade, rationalisation of the working docks through mechanisation and the considerable expansion of the port area through reclamation, ABP had a lot of land which could be profitably developed for non-port use.

Mr Thomas has the letter he wrote to his superiors, recommending diversification, pinned on his office wall. Initially, they were not keen.

"They did not exactly say I was crazy but back in the early 1980s people were not so enthusiastic about dock schemes as they are now."

In 1981 the UK was in the depths of recession. What with problems of planning permission, people could not easily see the potential in old docks.

Today, waterside projects are fashionable, and there are around 160 in the UK alone.

It was not until 1986 that the first part of Ocean Village got going. This was not because the local council was opposed. The Labour-controlled city council which achieved power in 1983 was and remains very keen on the project.

Mr Alan Whitehead, the council leader, says: "I always thought it slightly ridiculous that people lived in a famous port city like Southampton but could barely gain access to the waterfront."

Ocean Village, when completed (at a probable cost of £160m) will include a 450-berth marina and a marina village of 800 properties, ranging from studio apartments to four-bedroomed town houses. There will be new office accommodation alongside refurbished and specially designed premises for retailing and entertainment.

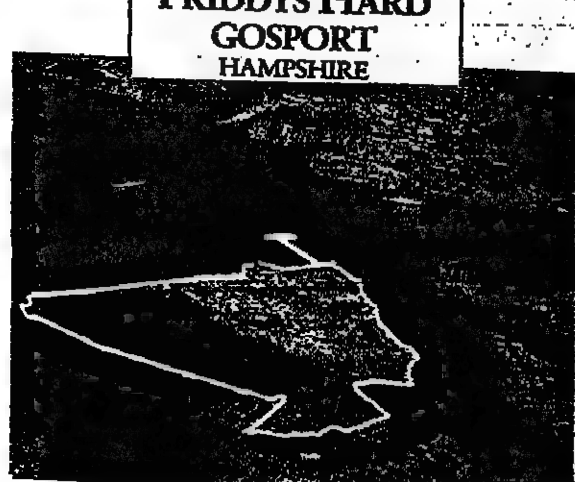
These include Canute's Pavilion shopping Centre, Alexandra Quay; Enterprise House (a 1873 former bonded warehouse); Savannah House, a three-storey 24,000 sq ft new office complex; the first phase of a 250,000 sq ft business park; a new headquarters for the Royal Southampton Yacht Club; a multiplex cinema; a heritage centre; a maritime museum and a 153-seat amphitheatre. The project is due for completion in 1991 and is being built in conjunction with Shearwater Properties.

Town Quay is a smaller scheme, a couple of docks to the west of Ocean Village. Some 38 acres of mixed development, it should when completed have 400 marina berths, 80,000 sq ft of office space, 24 retail sites, seven catering units and residential developments.

The focal point of Town Quay is the original Harbour Board office. The Whitbread Round The World Race was 1989. But there has been some slowdown in constructing Town Quay. The parent company of the builders got into difficulties and ABP bought the project back.

Between Town Quay and Ocean Village is Queens Quay. This is being cleared for a £100m project by Grosvenor Square Properties, the property subsidiary of ABP. It will again be a mixed use scheme with a 200-bedroomed four-star hotel, housing, a 240-berth marina, offices and leisure facilities. This will centre on the old

Continued on Page 3



Eastleigh Airport: joining the BAA network

EASTLEIGH AIRPORT

New era on the runway

FEW TRAVELLERS who use Southampton airport would disagree with the opinion that the place is "a bit of an eyesore."

The words are those of Mr Len Shelton, an official of Eastleigh Borough Council, the local authority that includes Southampton airport in its area, and which recently granted outline planning permission for a scheme to improve the airport extensively.

Emphasis will move from that part of its role which provides a home for recreational flying towards an identity as what Mr Peter de Savary, chairman of the company that owns the site, terms a "briefcase airport" – one that specialises in the needs of the businessman and the international commuter.

Southampton has had an airport at Eastleigh since 1914. In 1936 the first Supermarine Spitfire, assembled in Southampton, made its maiden flight at Eastleigh.

Last week, a limited company called Eastleigh Airport, which is a specially formed subsidiary of BAA (the privatised British Airports Authority), acquired the operational area of the airport. Southampton Eastleigh Airport Developments (SEADL), which has owned the airport up to now, retains only two areas, those on which the business park and commercial development are to be built.

SEADL is a 50-50 joint venture between Mr de Savary's Highland Participants Group, a property and ship repair group; and London and Edinburgh Trust, a property concern.

The development, it is estimated, will be worth £300m when completed, 10 years after work starts. A new terminal will be built, north of the existing building; a business park will be built on 43 acres in the hitherto unused north-east corner of the airfield; and a commercial zone, including offices and a 150-bed hotel, will go up on 35 acres next to the terminal, alongside the railway line.

The planners and architects drawing up the details are Scott, Brownrigg and Turner. They say the airport, including the business and commercial parks, will employ 4,500 people by the time it is complete. At present, 600 people work there.

What is not in prospect is a longer runway. The existing runway, north-east to south-west, is 1,723 metres long and can take aircraft up to the size of the McDonnell Douglas MD83 and the Boeing 737-400.

Its constraints are physical. To the north, the airport abuts a British Rail yard which is unlikely to move, and to the south it is bounded by the M27 motorway and, immediately beyond that, Ford's Transit van factory.

Officials of Southampton Eastleigh Airport Developments emphasise that the company does not want to turn the field into another Luton. "There will be some charter flying," one official says, "but Southampton will never have the charter potential of an airport like Hurn."

Hurn is the Bournemouth airfield, a few miles to the west of Southampton.

Scheduled flights out of Southampton are in the nature of commuter operations, serving, among other places, the Channel Islands, Paris and Belfast.

Air UK, one of the airport's most frequent airline users, operates the BAe 146 four-jet regional airliner from Southampton, the passengers a mixture of scheduled-service users and charter flyers, and a charter ski flight has operated in the winter.

As for summer charters to such resorts as Malaga, however, Ms Karen Tilbury, Eastleigh Developments manager, notes: "You cannot have full baggage and full fuel and get to these destinations."

Traffic at the airport has fluctuated during the 1980s, but forecasts show that there will be a cut in leisure flying.

In 1980, the airport recorded 63,000 aircraft movements (each landing and take-off is a "movement"). In 1983 the figure was 66,000, but last year it was down to 59,000. Of last year's movements, about 20,000 were commercial flights and 25,000 were flying schools' operations.

Now the intention is to operate larger aircraft with more passengers, carrying out fewer flights. But not everyone shares the developers' enthusiasm for the project. Fears have arisen concerning the effects of airport growth on the housing market, schools and roads.

Mr Bob Savage, Hampshire county planning officer, explains that Hampshire County Council's objections are founded on the way the airport development transgresses against the policy of restraint that the council has sought to apply to growth. Hampshire has a policy of limited growth in the M27 corridor because of constraints it perceives in the environment itself.

"Industry and commerce come to this area because it is attractive," Mr Savage says. Yet too much pressure would destroy its attractions. "They are killing the goose that lays the golden egg."

The success of the project depends on labour supply, he points out, yet labour is being priced out by upward pressure on housing costs.

Mr Tony Balcombe is a member of the airport's consultative committee, which brings together various interest groups. He speaks for two residents' groups totalling 1,500 members when he says: "It is not in our interests that they should develop the airport."

People who support the development agree with people who oppose it that overflying is a key issue. Mr Derek Hooper, head of strategic planning at Eastleigh Borough Council, points out that his authority has a long-standing policy of seeking to have the airport upgraded.

Even so, he adds: "A big issue is aircraft noise and the impact on residential amenity of aircraft on the flight paths."

The developers are aware of that and have made aircraft noise a prominent issue in the negotiations. Hitherto, no official controls have applied to flying at Southampton airport, but the deal to develop the site includes restrictions that did not exist previously.

Questioned about the development, Mr de Savary praises the airport's handy position for rail and motorway connections. "Communications could not be better," he says. He emphasises the "enormous interest" the project has attracted, particularly from overseas prospective tenants, and adds: "It will be the finest business park in the country."

It looks as if the people of Eastleigh share his optimism.

David Boggis

FINANCIAL SERVICES

Where staff can relax on the waterfront

WHEN TOWNS and cities describe themselves as regional financial centres, they often mean they are places to which national companies, banks and insurance houses have relocated to save money. Allied Dunbar, for example, conducts its national operations from Swindon. Equity and Law has its main headquarters in Coventry.

Southampton is rather different, since few financial services groups have relocated to Southampton and, except for Skandia Life, a medium-sized insurance concern, none has made it its headquarters.

Yet financial services – narrowly defined as banking, insurance, finance and business services – as an employment sector have grown rapidly in the city in the past decade. Between 1981 and 1987 the numbers rose by 31 per cent. From 10,342 people employed in 1981, there were 13,543 in 1987, equivalent to 12.7 per cent of the workforce.

This expansion came through companies growing regionally. Insurance groups such as Royal Insurance and Commercial Union, Coopers & Lybrand Deloitte and Price Waterhouse in accountancy, and Boodle Hatfield in law, have all found Southampton a congenial place to be. Bournemouth has also developed as a white-collar town, but Southampton has the large catchment area. If the Isle of Wight, the towns of South Hampshire, Portsmouth as well as Bournemouth and Poole are included, there are 1m people in the region.

Skandia Life chose Southampton in 1979 partly because it was cheap and partly because there was no other significant insurance group with headquarters there, so staff would be available.

The company was born when the Swedish parent group sought to expand in the UK, while a number of managers wanted to break free from other companies and go it alone.

Mr Paul Bradshaw, the managing director, says that one of those managers lived in the New Forest, and that was one reason that Southampton was chosen.

"Southampton is a sensible size. It is easy to get into from the surrounding towns. We are close to the station, and people can still park their cars. In Winchester you simply cannot park."

Mr Bradshaw says that when a suitable home was being sought for the new Skandia Life company, it did the usual thing of drawing a circle around London outside which it would not go.

"It is easy to get into from surrounding towns. People can still park. In Winchester you simply cannot"

"You have to maintain some presence in London; that is where the expertise is. It is now very easy on the train. I go go up two or three times a week. It is a good service. At the same time it makes little sense to have your back office, your administration and processing in London. It is prohibitively expensive."

But staff is still available in Southampton, which has a travel-to-work population of over 600,000. The large developments undertaken by Associated British Ports along the waterfront mean there is an abundance of office properties at reasonable rents.

Most companies move because modern technological communications mean back office staff can be located virtually anywhere. Usually it is somewhere which is cheap. But Commercial Union has expanded in Southampton for reasons which are the reverse of the usual ones.

Earlier this year, CU moved from the top of Southampton, from its old commercial district down to Queen's Terrace, which is one remove from the waterfront and is an attractive area that used to house ship's chandlers and cruise liners' offices.

CU built its own regional headquarters at a cost of £4m. It did so, according to Mr Lee Gladwell, branch manager, to be closer to the brokers who supply a lot of its business. This is mostly general, including fire and accident, but also includes some life business.

"Our new offices are within walking distance of most major brokers in Southampton and we have also opened the first full underwriting room in Southampton where brokers can visit underwriters to discuss risks and place business face to face. Our initiative is already proving a success, with sales up by over 50 per cent since we moved here," Mr Gladwell says. CU also has administrative and back-up staff in the new building and has an off-the-street office where the public can come in to make inquiries.

A short walk from Queen's Terrace, Boodle Hatfield, an old-established firm of Southampton solicitors, has taken office space in Town Quay, one of the new waterfront developments. With six partners and a staff of 35, Boodle Hatfield is happy to be in the new offices.

Mr David D'Arcy Hughes, a partner says: "It is nice to overlook the water, and our staff can relax on the waterfront during the lunch break. There is also shopping nearby. A lot of other companies, including Coopers & Lybrand Deloitte, have moved down."

Mr D'Arcy Hughes says Southampton began to change in the second half of the 1980s. The A33/M3 link to London and quicker trains had much to do with it.

Soon after, the Town Quay and Ocean Village waterfront developments began to take shape. His company, like others, expanded as Southampton began to revive. He foresees further growth and envisages the waterfront becoming a business area.

Stewart Dalby

Continued from Page 2

Trafalgar dry dock.

The eastern docks were chosen for these three projects because that is where the water is shallowest. At low tide there are 7.5 metres of water. That is not particularly shallow but in the western dock, which is still the working dock, there are 11.5 metres of water at low tide.

Mr Thomas says the company wanted integrated projects from the start. It did not want to build offices without shops so that workers would have to spend their lunch breaks in town. And so, among Ocean Village's first buildings were the Canute's Pavilion for shopping and the cinema.

Also, the company was keen that the developments should be alongside a working port. Mr Thomas inclines to the view that there might be too much marina space. People do not use their yachts that often, and filled marinas can convey a false air of tranquillity .

"I think it important that vessels of all kinds, even tugs or dredgers, should be coming and going, because it increases the sense of life," he says.

The three waterfront schemes are not all that ABP has in mind. The area between Royal Pier and Town Quay is going to be developed. Currently the Red Funnel ferries to the Isle of Wight operate from there.

In all, ABP owns 10km of quayside of which 2.6km has planning permission for development. But behind the waterfront there are opportunities to establish warehouses, industrial and business premises. Mr Thomas says that ABP has around 1,460 acres, of which 800 have or could get planning permission. This includes a swathe of land on Dibden Bay across the River Test.

Besides the waterside schemes, the Marlands shopping complex is well advanced. This is a two-level 220,000 sq ft covered shopping centre with a new department store. Also nearly finished on adjoining land are 125,000 sq ft of offices comprising new headquarters for Skandia Life.

There are various refurbishments to tourist attractions. The Mayflower Theatre has now been fully restored and can seat 2,000. Two new three-star hotels recently opened.

On the western esplanade a new 35-acre area of mixed developments of shopping leisure and business premises is in prospect.

When completed, Ocean Village will comprise a 450-berth marina and a village of 600 properties

With all this going on, it must be asked whether Southampton might now face an over-supply of new premises. Developers on the waterside admit that residential properties have been moving very slowly and in some areas not at all. One developer argues: "You would expect sales to be soggy at the moment. That is the case everywhere."

Mr Thomas says that more than 70 per cent of all the business premises going up the docks are pre-let. Boodle Hatfield, the solicitors, with new premises on Town Quay, paid £10 a sq ft for them. Mr David D'Arcy Hughes, a partner, claims the firm could now get £15 to £17 easily, after only a few months. Demand is strong.

At the Civic Centre, officials say they have few worries about retail developers.

"I WISH the prison officers' conference had been held in Southampton and not Portsmouth. Because of (the April riots at) Strangeways prison, the conference made the TV and national papers every day," says Mr Graham Shaw, Southampton's tourism development officer. He regrets the missed publicity and losing out to a regional rival.

It is doubtful whether such a loss would have mattered to Southampton in the early 1980s. At the time, Mr Shaw was the city's *entire* tourism unit. Today, he heads a department of nine, a measure of the growth in importance of both business and leisure tourism in Southampton.

Tourism is estimated to be worth some £75m a year to the city. Over the past 12 months 500 jobs have been created in the industry; another 500 are indirectly supported by tourist activities. This year alone, three hotels, including a Novotel and Hilton, have opened while the council is looking at the possibility of a five-star hotel on the waterfront. Existing hotels have plans to extend or refurbish their premises.

Khozem Merchant on the local tourist industry

'Soap' sells rooms

The trigger year was 1982-83, as the British economy picked up. Most of the increased activity has been in business tourism. This has generated regular Monday-Thursday hotel bookings but, apart from crowd-pulling annual events such as the Boat Show, little else. Step forward, Mr Shaw.

"We created the momentum and made people believe that you could have a tourist industry here," he says.

The way forward was through Southampton's enterprising tourist unit. Unlike other such bodies in local government, the city's tourism department is both a vehicle for promoting Southampton and a tour operator in its own right. Its holiday brochure offers cheap weekend breaks.

"With so many hotels rooms empty at the weekend, we were able to be creative and imaginative in attracting tourists," Mr Shaw says.

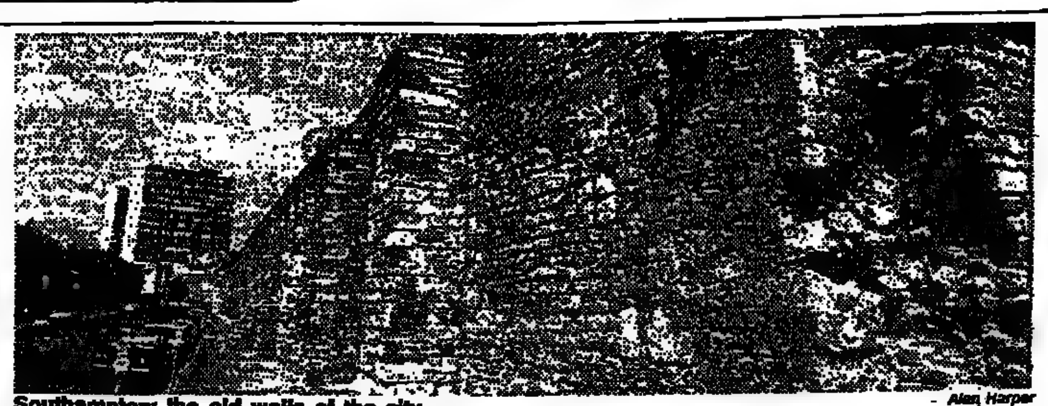
The "creativity" produced a policy of heavily discounted room rates, often up to 70 per cent. This has filled the hotels at weekends and provoked accusations of unfair competition from other operators. "Imagination" gave rise to a cluster of weekend breaks such as Howards' Way – two days on the south coast meeting actors and visiting the set of the Southampton-based TV "soap" about rich, south coast folk.

The results have been stunning. More than 5,000 Howards' Way weekend breaks have been sold in the past three years. Excluding the busy months of August and September, the number of weekends when hotel occupancy was above 50 per cent increased from eight in 1987 to 24 last year. At peak times, such as the Boat Show, occupancy soars to about 97 per cent.

Average weekend occupancy in 1989 was 56 per cent, compared with 42 per cent in 1986. Weekday hotel occupancy rose to 81 per cent in 1989, from 68 per cent four years ago. Year-round occupancy is about 65 per cent, up from 48 per cent at the low point in 1982-83.

"This year we will book 20,000 bed nights and we are aiming for a 33 per cent increase annually for the next three years. We are supplying the hotels with 35 per cent of all their weekend business. This would not have materialised but for our initiatives," says Mr Shaw.

"We want to create a positive image because it is this which will attract people." Part of this image-building involves exploiting Southampton's association with perceived symbols of success, he adds.



Southampton: the old walls of the city — Alan Harper

The Boat Show, which attracted 124,000 visitors last year, generating £34m in expenditure, is the largest event of its kind in Britain. Another big event is the Whitbread Round the World boat race, which starts and finishes at Southampton's Ocean Village, a £150m dockside office/residential/leisure development. Last year the boat race generated £2m in tourist revenues. And similarly Howards' Way, television's celebration of the Thatcher decade – of "can-do" businesses and ambitious dockside regeneration, features of Southampton's own economic regeneration in the recent past.

More than 80 per cent of the tourist department's activity focuses on leisure tourism, either weekend breaks or linked to special events. But business tourism remains the heart of the industry, and Mr Shaw is now turning his attention in this direction. The city council has appointed its first conference manager, with a brief to drum up conferences of up to 500 delegates for the Guildhall, Southampton's main conference venue.

But many believe that fully to tap the potential of business tourism, Southampton must have a trade/exhibition complex to underpin the sector. The Labour-led council supports such an initiative. So too does the Southern Tourist Board (STB), partly to strengthen Southampton's role as the region's premier city, but also to soak up the spare hotel capacity which the STB believes will surface in two to three years.

Besides the hotels which have opened in Southampton this year, several others are either under way or have received planning permission in the catchment area.

The dangers of a glut have been highlighted in the STB's regional strategy document and raised with the city council. "Our fear is that over-construction could result in many of the hotels lying empty when the bubble bursts," says Mr Peter Colling, the STB's development manager.

Mr Alan Whitehead, the council leader, denies that the city encourages an unco-ordinated hotel construction policy. "I don't think we are developing hotels excessively. The problem is the hotels around the city that are being developed in an *ad hoc* way."

The spurt of hotel-building activity has also led to staff shortages. Housing costs, low wages and poor career prospects have made recruitment and retention of staff tough. For example, the Marwell Resort Hotel, about 12 miles from Southampton, was hit by staffing problems after its opening in October 1989. "Staff will be a serious problem for the next few years. It is a fundamental problem of the south," Mr Whitehead says.

INNER CITY TRAFFIC

The prospect of People Mover

SOUTHAMPTON, like many other cities in Britain, is looking to a light transit system to solve its inner city transport problems.

But unlike, say, Birmingham, whose rapid transit system is intended to provide a service across the West Midlands conurbation, Southampton's £35m "People Mover" has a more limited brief. Its intended role would be to transport passengers only within its city centre: from car parks and the British Rail station to offices; from department stores to the waterfront.

Southampton City Council's initial brief to its consultants was to produce a financially viable high frequency rail service on a route that would fit into the city's rapidly changing contours. The consultants' June 1988 report recommended a circular route ringing the city centre. But it was amended after the council's public poll on the recommendations showed considerable opposition to the route running through two parks. The northern loop of the route was eliminated and a horseshoe route emerged, running from the north of the city centre down past the dockland redevelopment and back up again.

People Mover would run on a 4.4km elevated track sitting on a grid of columns. Up to 12 stations will be located at strategic points, such as department stores and office centres, the ferry, the waterfront development and car parks (mostly on the edge of the city). By running the track through the prime commercial areas (70 per cent of the route goes through developments still under way), the planners would lock in the business sector, thus tapping a vital source of potential funding, says Mr Stephen Keys, the council's project manager.

One funding option, according to Mr Keys, would be to invite companies to invest in the actual stations. Their final location could be determined by which companies took up the council's invitation. Some stations would be built at the city's car parks, now partly under-used because of their distance from the city centre. Car park capacity is to be increased from 8,000 to 15,000 over the next five years.

The consultants also tested a fare elasticity of between zero – on the assumption that retailers would underwrite the operating costs in the expectation of attracting more customers to the city centre – and 50p. They opted for a single ticket fare of 30p which, they estimate, would generate some 10m rides a year. Peak usage would be about 2,000 rides an hour. Operating costs are estimated at about £2m a year.

Construction would take 18 months and People Mover is set to start operating in 1993.

The council then organised a design contest, sending the consultants' price findings to 47 companies worldwide. The brief was to design, build and operate an automated light transit system with a built-in flexibility for demand peaks and troughs. In exchange, the successful company would be offered an exclusive operating franchise for 21 years. Seventeen companies responded.

The ruling Labour council is looking to the private sector to finance the development. Mr Alan Whitehead, the council leader, says: "We believe the money is there. It is by no means an impossible financial proposition."

Mr Keys says: "We think this project has a real chance and if the commercial sector does not share these values, then the project will not proceed."

Labour councillors say People Mover would help ease the heavy flow of vehicle traffic into the city centre. By siting stations at car parks on the edge of the city centre, drivers would be encouraged to take the People Mover for the final leg of their journey. And, by locating a station at the mainline terminus, it would enhance British Rail's chances of capturing a greater share of the commuter traffic to the city. Currently only 5 per cent of commuters travel to Southampton on British Rail; in most cities of Southampton's size the figure is 25 per cent.

In parallel with the passage of the parliamentary bill, a necessary hurdle for such projects, the council is talking to the local commercial sector to determine general investor interest and where businesses would want stations located.

Ultimately, a shell company will be formed, businesses invited to invest in it (the council would hold a minority interest) and a detailed financial plan drawn up.

The council's approach has been criticised by opposition Tories and by Mr James Hill, the Conservative MP for Southampton Test. They believe the project should be initiated and led by the private sector and that the overall package – in particular the council's central presence within it – is misconceived. Also, they say, People Mover's route should extend beyond the city centre.

Thus the parliamentary bill, currently awaiting its second reading in the Commons, has been blocked by Mr Hill. He is seeking amendments, mostly guarantees to restrict the council's role in the venture and to limit its recourse to a possible injection of public money.

Tory critics reckon commercial funding should have been guaranteed before the parliamentary bill was deposited in November 1988. "We do not believe politicians are the best people to decide what the market wants," says Mr Michael Andrews, leader of the Conservative group on the council.

Yet the political opposition belies the popular support for People Mover. In local elections in May the Tories' opposition to the scheme was an important part of their campaign. Labour romped home with an 18 per cent swing.

In the council's poll to test the consultants' report, 65 per cent of respondents expressed support for People Mover. Another 15 per cent said they would do so if environmental safeguards were guaranteed (such as saving the parks). Only 20 per cent, mostly pensioners and the elderly, opposed it, claiming the project was irrelevant to their needs.

Khozem Merchant

DEEP SEA RESEARCH

A magnet for the marine park

ONE FINAL journey awaits the remains of the 19th century vessel HMS Challenger, currently housed at the headquarters of Britain's leading centre for oceanographic research.

That is a 40-mile trip to the south coast in 1994, when the Institute of Oceanographic Sciences Deacon Laboratory (IOSDL) packs its bags at Wormley, Surrey, to set up home at a purpose-built £48m Centre for Deep Sea Oceanography (CDSO) on a 13-acre plot at Empress Dock, Southampton.

There it will be joined by its South Wales-based sister organisation, Research Vessel Services (RVS), which operates three laboratory-equipped research ships, and Southampton University's departments of oceanography, geology and part of engineering.

These three components will make up what will be Britain's first integrated deep sea research centre – 114 years after Challenger returned to England from a four-year, 69,000 mile expedition with the cargo of zoological, geological and other data that gave rise to modern oceanography.

CDSO is a joint project between the National Environmental Research Council (NERC), the government umbrella research body which finances RVS and IOSDL, among others, and Southampton University.

By bringing together at a single centre what has traditionally been Britain's geographically dispersed marine sciences research infrastructure, CDSO aims to achieve three broad objectives: to sustain IOSDL's showpiece projects on a better footing, to enhance its appeal to business and to be better placed to compete for plum private sector commissions.

NERC and Southampton University will jointly finance CDSO's development costs: NERC's share will be about £34m; the university's £14m, though this would increase if, as is currently being discussed, the university decides to broaden its presence at CDSO.

CDSO will house a scientific and student community of about 500. Scientists and support staff from Wormley and Barry have responded encouragingly to the impending move. No job cuts are envisaged as a result. In 1988 NERC announced across-the-board redundancies at Wormley owing to funding cuts. But, insists Mr Howard Roe, a Wormley biologist now co-ordinating the move, these were unrelated to the CDSO project.

An advance party of Wormley scientists will move to Chilworth Science Park, four miles from the CDSO site, later this year where it will set up a temporary base for the James Rennell Centre. The centre, named after a 19th century British geographer, will co-ordinate the UK's contribution to the World Ocean Circulation Experiment, a 10-year project to examine ocean heat circulation and its impact on the climate. The centre's staff will transfer to CDSO in 1994.

For Southampton, CDSO represents a big catch, not least because it will also act as a magnet to attract high-tech research companies to a proposed marine science and technology park in Ocean Village, a £150m dockside redevelopment just a stone's throw from CDSO. The university, which was a joint developer of Chilworth, is promoting the 40,000 sq ft marine park; Shearwater Property Holdings/ABP, the joint venture behind Ocean Village, is the developer.

Negotiations between the university and Shearwater/ABP are still at an early stage; a final decision on whether to proceed with the park along with design and cost details are unlikely before the autumn, says Mr David Shaw, a Shearwater director.

"The marine park was the university's initiative and it will be the catalyst that gets the venture off the ground," Mr Shaw says. The university has already sent out feelers to prospective tenants (30 companies expressed interest) and, along with the city council and Shearwater, gave a presentation to businesses in March.

Prof Ken Gregory, deputy vice-chancellor at Southampton University, says: "The advantages of the marine park to businesses would be that they would have access to CDSO's community of scientists, its extensive library and conference facilities and much more. The advantages for the university are that you would have closer links between marine-based industry and university research."

The partnership between the university and CDSO's own research staff is also one that excites Southampton's academic community. "It gives a real opportunity to develop a part of a disciplinary activity in higher education which is closely linked with a research institute," says Prof Gregory.

"If the marine park comes off students would also be exposed to technological research that is in the front end of the commercial sector," he adds.

When CDSO is completed, and if the marine park sees the light of day, then Southampton would contain a concentration of oceanographic activity, spanning the research, university and business sectors, unrivalled in Britain.

For CDSO the need to attract research commissions from the private sector is paramount. Indeed, commercial considerations are writ large: "As far as the centre's rationale is concerned, it was certainly part of the initial case for CDSO that its scientific excellence should become accessible to the commercial centre," says Mr Roe.

IOSDL's links with industry and commerce are already advanced. Most of its projects have involved the design and manufacture of strategic tools later passed on to industry for full commercial exploitation. "One of the benefits of the new centre is to create more opportunities for getting our specially designed instruments out into the marketplace. The bigger you are, the more opportunities you have and the more attractive you are to companies," says Mr Roe.

Thus, in one of its best known examples of a private commission and technology transfer, Gloria (Geological Long Range Inclined Asdic), IOSDL won a £12m contract from the US Geological Survey to produce ocean bed pictures of the US Exclusive Economic Zone off the coast of Hawaii, using sound waves, the aim being to provide material for oceanographic maps of the region. The technology created for the venture was transferred under licence to Marconi Underwater Systems.

Similarly, Autosub, a venture to create an unmanned, remote controlled submarine for the routine collection of deep sea data. Autosub, which has been running for two years and draws on NERC's entire scientific community, and all the associated technologies it will give rise to will be housed at Southampton. "It's a splendid example of a project which will benefit from the move," says Mr Roe.

Khozem Merchant

FINANCIAL TIMES
1990 RELATED SURVEYS

Milton Keynes	January 18
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ARTS

CINEMA

Return of the laughing gnome

Is there any film-maker in the world we feel more protective towards than Woody Allen? The tiny, fly-shaped comic with the querulous voice embodies our defenceless 20th-century selves. Seeing him on screen, we giggle as soon as that flailing, bug-eyed look comes over him, because we recognise the foreplay to a joke that will sweetly, stingingly redefine the human condition.

In fact we care so much about Mr Allen that we wince whenever he squanders his talent on "serious" movies: those films spirit-written by Chekhov and/or spirit-directed by Ingmar Bergman (and worst of all, devoid of Allen himself). If anyone else kept disappointing us with claptrap like *September* or *Another Woman*, we would strike him off our pantheon.

Crimes And Misdemeanors cross-cuts two separate tales of human vanity, one serious, one comic. In the first a wealthy, married ophthalmologist (Martin Landau) murders his jealous mistress when she threatens to publicise their affair (Anjelica Huston). In the second Allen himself stars as a lowly documentary director tasked with making a TV profile of his brother-in-law (Alan Alda), a smug sitcom writer and cracker-barrel media philosopher.

The film is as full of creaks and holes as a New England attic. Windows do not quite fit. Doors let in draughts. But for the first time since *Hannah And Her Sisters*, here is the horn-rimmed, high-energy clown himself, acting as on-site repairman and decorator.

The two stories were planned originally as separate movies. The sole linking character now is a Rabbi played by Sam Waterston, whose cementing function is all too evident. Murderer Landau's friend and confessor, he is also motormouth Alda's brother. Since he is going blind, he does further service as an ambulant symbol of the film's theme: that the "eyes of God" are clouding over in an agnostic world, letting sin (Landau) and charlatanism (Alda) go undetected.

The murder tale, though more sharply honed than Allen's recent stabs at *sturm und drang*, and even modestly gripping as a guilt-haunted Landau entrusts the "kill-off" to his gangster brother (Jerry Orbach), has its share of stuffed or semi-lifeless characters. Claire Bloom twitters bewilderedly in the underwritten role of Landau's wife. And Ms Huston is allowed to be little more than a distraught and raving harpy.

CRIMES AND MISDEMEANOURS (15)
Woody Allen

TOTAL RECALL (18)
Paul Verhoeven

THE BOOST (18)
Harold Becker

GREMLINS 2: THE NEW BATCH (12)
Joe Dante

Savingly, we keep cutting to the other story, where Allen reigns supreme. No greater delight could exist in cinema than the sight of this gnomic gnome reacting with comic despair at Alda's verbal horsefeathers ("Comedy is tragedy plus time") or warning his producer-girlfriend Mia Farrow away from Alda's seductive guiles. "He wants me to produce something for him," she says. "Yes," bleats Allen, "his first child."

Alda too carves out an effective comic corner: a niche where, pedestalled on portentous proverbs, his character treats the world as a giant dictaphone. Indeed he carries a pocket tape-recorder around with him even at parties. "Idea for TV series . . ." he will suddenly burble. At which point Allen, at his side, goes into his fish-gaping act, producing the finest study in comic incredulity since Nero's wife said: "You mean you want your fiddle, at a time like this?"

Whenever he is turning water into champagne, Allen is the best party guest in the world. But miracle-workers are strange people. Like actors who want to play Hamlet, they all seem to want to end up nailed to a cross. No doubt the Allen *oeuvre* will continue to hiccup from comedy to "tragedy" to comedy. And Allen's fans will have to check each day's notice-board to see if the itinerary is Calvary or Cana.

■ ■ ■

"Our marriage is just a memory implant," declares Arnold Schwarzenegger's wife in the science fiction epic *Total Recall*. We know the sentiment. Did we really hitch our lives many years ago to this person/ this job/ this destiny? Or has someone been monkeying with the memory side of our brain?

Someone, possibly God, has certainly been monkeying with Mr Schwarzenegger. He now resembles a walking redwood tree bulging in bizarre places. But he has also developed a comic sense in recent films (*Red Heat*, *Twins*). Here he carries a fine, deadpan twinkle through the futuristic tale of a super-cop tracking villains on a far planet.

The film needs all the twinkles it can get. "Is he the hunter or the hunted?" is the question intoned by director Paul (*Robocop*) Verhoeven, assisted by ex-*Alien* scenarists Dan O'Bannon and Ron Shusett, adapting a Philip Dick novel. And the answer comes back from the audience, "We dunno." Blasted, not to say blinded, with exploding visuals, we cannot be expected to understand the plot too. I think, but am not sure, that Large Arnie is being "set up" by false memory-implants to go to Mars and be used as a pawn in a power battle between person X and person Y.

Suffice it that machines crackle, futureworlds whirl and beings human and animal metamorphose before our eyes. Sci-fi addicts, see and enjoy. Everyone else may await, though not over-eagerly, the video.

■ ■ ■

In *The Boost*, *Wall Street* meets *Clean And Sober*, with a letter of introduction from *Death Of A Salesman*. For half an hour we are in the land of yuppie adventurism. Self-making entrepreneur James Woods and his lovely wife Sean Young have been whisked to LA from NY by millionaire Steven Hill, seeking young Turks to staff his tax-loophole racket. But alas! No sooner do they accustom themselves to Mercedes cars and hilltop houses than they take their first snort of white powdery stuff.

Soon dealers are shovelling truckfuls of cocaine up their noses. Their lives dive as fast as they rose, burning up on re-entry into reality. Directed by Harold Becker (*The Onion Field*) and written by Daryl Ponicsan, the tale electrifies us while it stays plugged into its rise-and-fall plot and into James Woods's jitterbug performance. Tousled and waxy-faced, Woods resembles a marionette being encouraged with a cattle prod. The puppet of his own ambitions, this man is also a human pain-cushion, and whenever he is on screen Woods turns a B-movie melodrama about human waste into a humming psycho-drama. Only in later scenes, when moral messages are neon-written for the myopic, does *The Boost* lose power by overloading its own grid.

■ ■ ■

Gremlins 2: The New Batch has so much comic energy that we overlook its lack of anything worth calling a plot. In a film where one vaudeville turn deserves and gets another, the greeny-brown, hideous things bare their fangs and roll up their ids in a millionaire's office-skyscraper. This is Manhattan's "Clamp Centre," owned by one Daniel Clamp (John Glover), whose facial and nomenclatural resemblance to Donald Trump is non-coincidental. Bounced into being after dear little Gizmo has been splashed with water, the "new batch" terrorise our hero and heroine (Zack Galligan, Phoebe Cates), disconcert mad scientist Christopher Lee (up in the Clamp genetics lab), take over the in-house TV network and generally read the cultural and industrial riot act.

This time around, the little perishers even have a spokescreature: a Cary Grant-accented gremlin who dispenses chat-show wit and wisdom for the cameras. *Gremlins 2* is a treat. Providing a rat-a-tat of movie in-jokes (Gizmo fights his evil spawn by dressing up as Rambo), the film also strafes the age of hygienic hi-tech and the convenience culture. A mousetrap materialises in a secretary's sandwich; havoc is played with the building's "foolproof" alarm system, and even the movie's own projection is subject to unforeseen horrors. Marvellous. Charlie Haas wrote; Joe (*Gremlins 1*) Dante directed.

Nigel Andrews

Allen and Mia Farrow in "Crimes and Misdemeanours"

Chekhov's dreamers from an Irish angle

Three Sisters

ROYAL COURT THEATRE

It may have originated in Dublin, but the Chekhov production now in Sloane Square has as much an international look as those operas mounted by acknowledged production teams that you are as likely to find in New York or Vienna as in Paris or London. The jet-set, or rather Irish ferry, age has come to the theatre; and one can only hope a new uniformity is not the result.

This production was first seen at the Gate Theatre in March with a slightly different cast. The main point of interest, the heart of the work, is the casting of the Cusack family in the central roles. No mere gimmick; we know the individual talents of the three young actresses concerned and their father Cyril, a distinguished performer who joined the Abbey Theatre nearly 60 years ago.

The curtain rises on the three girls unusually close together, almost huddled, two sharing a lighted cheroot. At first it appears that Olga has been cast as story-teller; her recollections are addressed not to some invisible fourth wall but directly to the audience, nodding and confiding. In fact Adrian Noble's production soon reverts to convention – indeed, sometimes bad old convention. This is slow, threnodic Chekhov of the sort that British actors used notoriously to revel in; little sign of the abrasive comedy of humanity recently in vogue. In each of the last three acts (in a long evening) there are moments when the dramatic pulse seems to stop, when the theatrical performance is as languidly resigned to a long dying fall as the society it portrays.

There are dangers in emphasising the Irishness of Chekhov's characters. Yes, here too is a society of talkers and dreamers, their past as vivid as their present, fantasy more true than mundane reality, but occasionally stirred to terrible action. But the soft lilt and gentle pace have a terminally enervating effect, on Barry Lynch's Baron Tuzenbach for one. "My fate's decided, I've resigned my commission," he murmurs as smooth as whisky, thereafter lethargically fatalistic in a way that characterises the production's ambling pace, the occasional acerbity of Frank McGuinness' new version notwithstanding.

Even Nicky Henson has toned down that bold, primary-coloured attack that sometimes topples him into caricature. His Vershinin is a true military man barking out staccato phrases, but curiously muted, as if small-town life had sapped the visitors' vitality as well. We take his affair with Masha on trust. Vershinin is of course in love with his own voice; but should he be quite such a wooden toy soldier?

Each Cusack sister has her own beauty. Sorcha's Olga has the worn kindliness and remnants of authority that make one wish she would clout her odious sister-in-law – though Lesley Manville's Natasha, interestingly prone to effusive kissing, hints at thwarted affection motivating, and explaining, Chekhov's nastiest character. Sinead's Masha is sharp-edged, snappish, and therefore all the more moving in the final flood of grief for her departing lover. Niamh's Irina loses most from the production's soft focus which blurs and fuzzes strokes that should be as sharp and economical as a Chinese water-colour; though she comes into her own as an angular, bespectacled figure, hair in a schoolmarmish bun, unconsciously anticipating the death of her fiancé and the long spinsterhood ahead.

Tom Hickey's schoolmaster is ultimately touching after two acts of self-conscious character acting. Cyril Cusack himself is the old doctor, tossing his lines out with devastatingly calculated casualness, throwaway technique wonderfully applied to hand grenades.

This is decent but not outstanding Chekhov, disappointing coming from Mr Noble. Bob Crowley's design is of a sort now very familiar though no less effective for that, from the almost naturalistic morning-room of the first act with its hint of a bright world outside, through the expressionist perspective of endless panelled wall cupboards in the drudgery-ridden fire scene, to the stark blankness of the last act, a fitting background for elegiac figures, heads bowed, so many Niobes.

Martin Hoyle

The Fantasticks

OPEN AIR THEATRE, REGENT'S PARK

Corny, sentimental and self-aware, this show, so full of theatrical wisdom, is a little slice of heaven. It has just clocked up its 30th anniversary at New York's Sullivan Street Playhouse; and it's a miniature taste of what now seems sweetest about the American 50s.

Its tunes, by Harvey Schmidt, are untouched by rock-and-roll; their romance and comedy progress by way of the wider pre-60s range of dance rhythms – waltz, Latin, jazz. Though *The Fantasticks* is only a street or two from Sondheim style, its book and lyrics, by Tom Jones, show none of Sondheim's glibly urbane view of adult life; it is smart without sourness.

It's a show about a show; and that inner show is about kids poised on the brink of the outer world. You see nine performers prepare their charade ("Try To Remember"), in which Matt and Luisa, lovers separated by the garden wall, believe that their fathers thwart their passion ("Soon It's Gonna Rain"). One twist, however, is that the fathers are faking ("They Did It 'Cos We Said No"), and another is that the characters know that their world is a stage, in which the bandit El Gallo is just a charlatan. Just as Part 1 ends in a happy tableau, El Gallo, who also acts as the play's compere, says, "Very pretty, isn't it? Worthy of Watteau," and tells us that this is now the interval. Then he starts Part 2 by showing us that the same tableau is beginning, in every way, to disintegrate.

I haven't enjoyed a stage musical so much since Bernstein's *Wonderful Town*, another 50s gem, was given here a few years ago. A pleasure to hear players being challenged to sing up to a tune, not down to its words. Anthony Barclay is kinda perfect as Matt, the student lover with the horn-rim specs, cardigan and book; his singing never draws attention to itself but is always true. Emma Amos, picture-pretty as Luisa with bangs, ribbon, pony-tail, sash and ankle-socks, is virtually unscathed by the role's pointework in Part 1 and its tricky coloratura; she, too, never over-delivers.

Both these juveniles capture the slangy elegance of American adolescence with the right dash of caricature. Roy Hudd and Anthony O'Donnell, who milk an encore for their "Garden" tap duet in Part 2, give neat support throughout. Basil Hoskins and Mark Addy are hilarious as Henry and Mortimer, latterday Crummleses. All congratulations to Ian Talbot for eliciting such fine ensemble interplay and lightness of touch.

The Open Air Theatre with the sunlight on the leaves in Part 1 giving way to a lilac sky in Part 2 is a blissful place for such a piece. Maybe the two best performances of all are the mutes, Jonathan Markwood (tall) and Rachel Pittman (tiny). They're po- and chalk-faced Pierrots, half in, half outside the action. During the marvellous jazz quartet that opens Part 2, they click their gloves fingers but their faces stay impassive. In one scene for the lovers, they lean over the little theatre-curtain and sprinkle stardust.

Again and again, they – like the show – keep telling you, "This is corny, this is mere theatre," and making you smile just as you find your eyes oddly moist.

Alastair Macaulay

Time's Arrow

ALBERT HALL, RADIO 3

Anthony Payne has always set great store by his artistic affiliations. In identifying himself with the English composers of the first part of this century such as Elgar, Delius and Vaughan Williams he has implicitly separated himself from the main currents of contemporary music. Late romantic models may have become fashionable in recent years, but English romanticism is still an acquired creative taste.

So the juxtaposing of Payne's Proms commission, *Time's Arrow*, with the Elgar Violin Concerto in this concert by the BBC Symphony Orchestra under Andrew Davis can hardly have been accidental, even if it was not as informative as it might have seemed on paper. For the language of this 27-minute tone poem is by no means neo-romantic or even "English" in any obvious sense. If there is a point of contact with a previous homegrown generation then it is with early Walton.

Time's Arrow is a seamless, single-minded structure, an arch form apparently motivated by the Big Bang theory of the origin of the universe. The music moves out from a static introduction through an explosive allegro to a quiet still centre and then back to its tightly knotted starting point, so that instead of following the conventional dynamic curve of such a trajectory, Payne inverts it; his music broadens as it moves towards the point of its arch, gaining not momentum but detail, and focusing down on to fine structure at the expense of forward impulsion.

But it proves to be only at the centre of the arch, in its intricate web of melodies, that the musical ideas are rounded out. The solo lines that float through this section carry a personal, almost nostalgic imprint, whereas the stabbing brass and scudding strings of the outer sections function rhetorically rather than expressively. Perhaps that is deliberate, and perhaps at further hearings more of the internal links will become obvious and the core of the work will prove to be a natural outcome of its extremities.

Andrew Clements

The Frogs

BRENTFORD OLD BATHS

Well, I've seen Verdi's *Giovanna d'Arco* in Epsom Baths, but they were covered in. Brentford Baths are very much open – altogether a Bigger Splash – for the European premiere of Aristophanes' comedy in a version by Burt Shevelove with incidental music-plus-lyrics by Stephen Sondheim. This was first performed in the Swimming Pool at Yale (Meryl Streep and Sigourney Weaver were in the chorus) in 1974, so the setting is pretty authentic, and I have to say that this is one of the most, well, unusual and entrancing shows I've ever been to.

There is no question of Sondheim having skimped on this occasional collaboration with his *Forum*-partner: he wrote seven substantial numbers ranging in style from a smart-as-paint Broadway opener to a spare, lyrical setting of "Fear no more the heat of sun," via five proper, big choruses in the proper places. The first finale, "It's only a play," sung and spoken by the dead in Hades, is especially haunting, and, like all the choruses, extremely testing for amateurs. The lyrics are vintage Sondheim (the internal rhyme involving "strip" and "Euripedes" whizzed by too fast for me to catch).

Shevelove's adaptation stays fairly close to Aristophanes but substitutes Shaw and Shakespeare for the original's Aeschylus and Euripedes, and there's the rub. While the first act is a joy from start to finish, with gags as much at home in Manhattan as they are in Aristophanes (Hercules: "I go to clean the Augean stables." Dionysos: "No *shit*!"), the duel between the playwrights in the second is too close in tone to Shaw's ghastly *Shakes v. Shav* and is far too long. A snip or two would sort that out.

John Gardyne's direction for COEX (Community Opera in Ealing Experience) is quite brilliant, really using the bath-setting to advantage, disposing his large cast of chorus and extras (including eight young ladies of the Rushmore Synchronised Swimming Club) with real flare, and both taking and conveying honest pleasure in acres of healthy, well-rounded flesh. All must have worked hard to achieve such snappy mass-exits as hurtling into the locker-rooms and slamming the doors in perfect unison, or diving into the pool with Busby Berkeley precision. And, for heaven's sake, it must be tricky to swim and sing at the same time.

There are good, up-front performances from Richard Zajdlic (Dionysos), Bob Husson (Xanthias) and John Sheppard (Pluto); Shaw and Shakespeare seem – perhaps inevitably – undercast. The band is good, the musical direction by Helen Porter energetic, which it has to be given the width of the open spaces. It would be idle to pretend that there weren't balance problems at Tuesday's first night, or that ensemble was perfect any more than the vocal tuning was (Sondheim isn't into microtones, yet). But there is an air of hedonistic joy about the proceedings that far outweighs such niggles.

It was interesting to see two rather important people from the Royal Opera in the audience. Can they be thinking of flooding the stalls? Or a co-production at the Oasis? This show certainly deserves longer exposure than its advertised run until August 4. But don't count on it – get booking now.

Rodney Milnes

ARTS GUIDE

July 20-26

EXHIBITIONS

London

The Royal Academy. The 222nd Summer Exhibition – the oldest established and largest open submission exhibition in the world, though with only 1,206 assorted works of painting, sculpture, architecture and the graphic arts, it is somewhat smaller than usual. Sponsored by the Dai-Ichi Kangyo Bank.
The Tate Gallery. On Classic Ground – a large exhibition devoted to French, Italian and Spanish art of the first four decades of the century. It includes work by Matisse, Picasso, Braque and other established masters of the period but also much that is fresh and unfamiliar by the less well known, if no less deserving. Sponsored by Reed International.

Paris

Carte musées et monuments sold in museums and metro stations enables visitors to avoid queues at 60 museums and monuments, including the Louvre, Musée d'Orsay and Versailles.
Centre Georges Pompidou. Andy Warhol. Some 200 works retrace the career of the multi-faceted artist who became one of the main representatives of American Pop Art and part of the Underground Culture scene. Beaubourg. Closed Tue. (42771233).
Galerie d'Art Saint Honoré. A Flemish 15th century retable. Around a large-sized 15th century Adoration of the Magi painted by an anonymous artist who combined to great effect northern realism with Italian mannerism, Monika Kruch assembled other works of religious inspiration. (42601503), open Mon-Fri.
Bagatelle Chateau and Trianon. Vienna 1815-1848 – the Biedermeier period. Vienna's museums have lent 250 pieces of furniture, porcelain, paintings and objets d'art for an exhibition of the style which expressed the Austrian capital's changed mood after the turmoil of Napoleonic wars – the Biedermeier style. Bois de Boulogne. (45012010).
Galerie Odermatt-Cazeau. 19th and 20th Century Masters. The exhibition begins with the impressionists and ends with an abstract Picabia. Ends Saturday (42662258).
Grand Palais. Pre-Columbian art in Mexico (1500BC – AD1521). Some 130 exhibits from Mexico's archaeological museums bear witness to the high degree of artistic development of the ancient civilisations of the Mayas and Aztecs. Ends Monday (42655410).

Martigny

Fondation Pierre Gianadda. Modigliani. Some 50 oils, as many drawings and some sculptures form an important restrospective of the Italian-born artist living at the beginning of the century. (26/223978).

Brussels

Palais des Beaux-Arts. Selective Affinities: Paul-Armand Gette and Rene Magritte. Closed Mondays.
Musée Royal D'Afrique Centrale. Idel Lanchelevici - drawings of Africa.
Fondation pour L'Architecture, Bruxelles Ville d'Architecture 1890-1958.
Musée Wellington-Waterloo. Inedits sur Waterloo commemorates the 175th anniversary of the Battle of Waterloo. Daily, ends July 31.

Antwerp

Rembrandt Bugatti and Belgian Animal sculpture (1860-1930) closed Monday. Ends July 29.

Rome

Galleria Nazionale d'Arte Moderna. Fabrizio Clerici retrospective: drawings and paintings, which move from a group of baroque drawings of Naples, inspired by a childhood visit, to intricate metaphysical works in pastel shades. There are also references to Signorelli's apocalyptic frescoes at Orvieto, and the 19th century romantic Boecklin.

Florence

Palazzo Vecchio. The age of Masaccio: tying in with the reopening of the Brancacci chapel in the Church of the Carmine after a six-year restoration on the cycle of frescoes by Masaccio and Masolino, are 109 works by painters and sculptors who worked in Florence between 1401 (the date of Masaccio's birth) and 1440.

Venice

Palazzo Ducale. Titian. This exhibition organised jointly by the Venice local council, the Arts Ministry and the National Gallery in Washington, and marking the 5th centenary of the painters birth, is the largest for more than 50 years. Over 70 paintings are on show.

Bologna

Galleria d'arte Moderna. Giorgio Morandi retrospective. More than 200 works lent by Italian and foreign museums celebrating the centenary of the painter's birth.

Mannheim

Städtische Kunsthalle, Emile Bernard, a painter always in the shadow of Van Gogh and Gauguin is honoured with a retrospective of 170 early paintings.

Essen

Villa Huegel 15. St Petersburg around 1800. With 555 pieces on loan from Leningrad's state Hermitage Museum, the exhibition details the developments of Russia from a great empire to a European power. It covers the period from the 18th to the 19th century of tsars Paul I (1796-1801) and Alexander I (1801-1825) and gives a clear, variegated view of the historical importance of the period of the Russian empire, with paintings, furniture, sculptures, costumes and porcelain.

Leipzig

Museum der bildenden Künste. Max Beckmann (1884-1950); pictures from 1905-1950. Born in Leipzig, the painter taught in Frankfurt's Städelschool from 1917-1930. There are works from all over the world, including the renowned Synagoge and his final painting Behind the Stage.

Madrid

Museo del Prado. Sanchez Coello (1531-1588). Some 50 paintings by this Spanish artist born in Valencia, predecessor of Velasquez. Ends July 30.
Palacio de Velazquez. Roman Bronze Objects in Spain. Over 500 objects from different Spanish museums. The objects on show include official statuary, sculptures, toys, mining tools, medical instruments, toilet articles, a hydraulic pump. Closed Mondays.

New York

New York Public Library. More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books.
Museum of Modern Art. The first retrospective in America in 25 years marks the 80th birthday of Francis Bacon with 60 works dating back to his figure studies of the 1940s.
Metropolitan Museum of Art: The Russian Taste for French painting, representing three centuries of French masterpieces from the Hermitage and Pushkin Museums, covers Poussin to Matisse. Ends July 29
Museum of Modern Art. New York gets to see the internationally organised exhibit of Matisse's paintings and drawings from 1912 and 1913 during the period of his Moroccan stay.

Washington

National Gallery. More than 90 prints by Edvard Munch show the Scandinavian artist at his most colourful and prolific.
National Gallery. More than 10 media are included in the major show of 112 of Jasper Johns's drawings over 35 years, exploring multi-media techniques in tracing, drawing and imprinting. Ends July 29.
Hirshhorn Museum. Paintings, drawings and sculptures from the Bay Area figurative movement of the 1950s and 1960s.
National Museum of African Art. The national tour of artistic and religious objects, much of it sculpture, encompasses nine centuries of Yoruba civilisation.

Chicago

Chicago Historical Society. A House Divided - America in the Age of Lincoln, with documents, mementos and personal effects of the Great Emancipator.
Art Institute. Monet's series paintings, including Haystacks, Poplars and Rouen Cathedral, all from the 1890s.

Tokyo

Teien Museum. Perfume Bottles by René Lalique. Closed on alternate Wednesdays.
Meguro Art Museum. Josaku Maeda. More than 100 paintings by a Japanese artist (born in 1926), who studied in Paris and whose works are all based on the Mandala.
Bunkamura, The Museum. 500 Years of European Art. Loan exhibition from the Pushkin Museum, Moscow, especially strong on post-Impressionists, whose work was seized by the state after the revolution. Closed Thursday.

SALEROOM

A seasonal symmetry

The wonderful symmetry of Sotheby's and Christie's was underlined yesterday when Sotheby's announced annual sales for the 1989-90 season of \$3.2bn (£1.96bn). This represents a gain in dollar terms of 39 per cent, and in sterling of 45 per cent. On Tuesday Christie's announced that its turnover was 40 per cent higher, at £1.458bn (\$2.376bn). Obviously the death of the art market had been greatly exaggerated.

Michael Ainslie, president and chief executive, managed to refer to the one spectre dogging the art market – the failure of the important Impressionist and Modern picture sales in London in June. This sector accounts for around half of the company's turnover and profits, and if it turns sour the whole edifice totters.

"In reviewing the sale results this spring we have seen that in virtually all areas works that were fresh to the market and were properly estimated sold well, while those that did not meet these standards faced greater resistance than in recent seasons. We believe that such stabilisation in prices is a healthy development for the market as a whole," he said.

This rather ignores the fact that Sotheby's, to gain properties, hypes the value of art, and thus the reserves, and that it has vigorously pursued the philosophy of art as an investment, which automatically assumes rising prices.

Mr Ainslie makes no reference to the increasing practice of guarantees, under which Sotheby's gains a collection by assuring the vendor of a certain return. This worked well with the Dorrance collection, which brought in \$135.6m, and the Malbin, which set records for Italian Futurists with a total \$86.5m, but caught Sotheby's on the hop in London in June when guaranteed lots failed to sell.

Perhaps the most significant development was Sotheby's acquisition, with the dealer William Acquavella, of the stock of another New York dealer, Pierre Matisse, the son of the artist. Sotheby's has started to sell off the art privately, and in its London contemporary art auction. This blurring of the lines between auctioneer and dealer causes worries, to both other dealers and the licensing authorities.

In all 367 lots sold for over \$1m as against 258 last season. Sotheby's highest price was the \$78.1m for Renoir's "Au Moulin de la Galette", only exceeded at auction by Christie's \$82.5m for the Van Gogh, "Dr Gachet."

Antony Thorncroft

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First bites at defence

THE statement to the House of Commons yesterday by Mr Tom King, the Defence Secretary, on the future of British defence policy was less dramatic than it sounded. There are to be cuts of about 18 per cent in service manpower, but only over a five-year period. And while the British military presence in Germany will be roughly halved, that process, too, will take five years to complete. New figures on defence expenditure – sometimes referred to as the "peace dividend" – will come later, though according to Mr King's current estimates spending is likely to fall by less than the 18 per cent reduction in the armed forces.

Nevertheless, Mr King has made a start. Yesterday's statement is an advance on the Defence White Paper, published in April, which simply looked at the options for change. Since then we have heard of the more radical ideas of Mr Alan Clark, minister for defence procurement, who would like a much larger British military disengagement from continental Europe. Mr King, characteristically, has gone for a more cautious approach, but even he admits that a statement of defence intentions in July 1990 may be quickly altered by time and circumstance.

Some caution is justified, and not only because the Soviet Union is likely to remain a formidable military power. Another equally compelling reason is Britain's membership of the Atlantic Alliance. The alliance is about collective security, the need for which remains as great as ever, even though it will be at a lower level of armament.

Correct forum

Britain is a key member of Nato in a way that the country has never quite succeeded in becoming a key member of the European Community. It is right that it should want to see consultations on force reductions conducted in the Nato forum rather than by a series of unilateral cuts. Since other member states are also carrying out defence reviews in the light of the changes in eastern Europe, Nato is the place where changes should be co-ordinated. An effective use of the Nato machinery should also help to keep the Americans on board.

Preliminary caution is justified in one more way. Chancellor Kohl has become reluctant to say anything very definite about defence policy ahead of the German election in December. Only when those elections are out of the way will it be possible to have fuller discussions about Nato strategy. Therefore yesterday's British statement was still something of a holding exercise.

Anglo-French links

In another sense, however, the statement carried caution too far. One of the consequences of the changes in central Europe must be a search for closer defence co-operation between Britain and France. The two countries have too many interests in common not to work together and, while there has often been more co-operation than meets the eye, there is still a long way to go. Mr King was reluctant yesterday, for example, to say anything about Anglo-French co-operation on sub-strategic systems like tactical air-to-surface missiles. Some demonstration of collaboration between London and Paris is now needed; under President Bush's administration there is no reason why its should impair Anglo-American relations.

The statement was useful in two other ways. It had become necessary to give the armed forces themselves some assurances about their future, for there was some risk of a decline in morale. The message there is that the new smaller forces will need to be every bit as professional as before. The statement also implicitly revealed that even without the outbreak of European peace, there would have had to have been a British defence review. Too often planning targets were not being met and commitments were running ahead of resources. Inflation has played havoc with this year's budget. Mr King talked yesterday of the need to cut the tail as well as the teeth; the tail in the civilian defence establishment still looks excessively large. The next Defence White Paper should provide more details of actual as well as potential reductions.

Castro's Cuba in a time-warp

THE fate of Cuba is one of the last international issues on which the Soviet Union and the US have yet to find a meeting of minds. The US administration seems bent on seeing President Fidel Castro disappear ignominiously from the scene amidst the ruins of his revolution; while President Gorbachev finds himself uncomfortably supporting an alliance that has become caught in a cold war time-warp.

President Gorbachev today is still paying the price for his predecessors' decision to allow the engaging young revolutionary, Fidel Castro, to become a Soviet satrap on America's doorstep. Successive US presidents have never allowed the Soviets to forget their encouragement of President Castro, which, during the 1962 missile crisis, brought the two superpowers close to nuclear conflict. Thus Washington can scarcely conceal its satisfaction over President Gorbachev having to resolve this legacy of imperial over-reach. Yet as President Fidel Castro's position becomes increasingly anomalous inside Cuba, the need is correspondingly greater for Moscow and Washington to narrow their differences and adopt an agreed approach on how to deal with the country.

President Castro is the last person to act like a puppet, manipulated by two outside powers. Nevertheless they wield considerable influence. The US maintains a tough economic embargo, retains the base of Guantanamo on Cuba and hosts a large Cuban immigrant community in Florida, while the Soviet Union underwrites the economy to the tune of \$2bn to \$3bn a year and provides vital oil supplies.

Seeking asylum

The Cuban leader weathered a storm back in 1980 when he was obliged to tolerate the mass exodus of some 120,000 disaffected Cubans. The exodus began with an invasion of foreign embassies and people left because they despaired of things ever changing inside Cuba; they preferred instead the attractions of Miami. The fact that Cubans have again been seeking asylum in foreign embassies over the past two weeks – even if encouraged by agents provocateurs as the authorities claim – is symptomatic of popular frustration with a revolution that has involved more sacrifices than rewards. The circumstances, however, are different.

Wind of reform

Political and economic change has to come in Cuba. An authoritarian one-party system, managing an inefficient command economy subsidised by the Soviet Union, cannot remain immune from the wind of reform that has swept the socialist camp. Cuba's principal trading bloc, Comecon, has collapsed in less than a year and the Soviets themselves have begun to demand better value for money. The island can no longer afford to sustain all its expensive, and in many ways impressive, achievements in the field of education and social welfare. President Castro may pretend in public that Cuba can survive as a siege economy; but the reality is different.

President Castro suffers from the classic dilemma of all authoritarian leaders who have created a system in their own image. He has no easy means of handing over power. For him to carry out the kind of changes needed would be an admission that he had led Cuba in the wrong direction for the past 31 years. It is not unnatural that he clings obstinately to the idea that it is merely the errors in the system which need to be "rectified".

He could perhaps save himself if he were to deploy his considerable prestige to accelerate a reform process which is already being espoused from within the party, perestroika-style. This would enable the Soviets gradually to disengage from Cuba. In turn this would put pressure on the US to drop the economic embargo as a counter-part for a reformed, democratic Cuba.

Unfortunately, the US is unwilling to provide an honourable exit for President Castro, while the Cuban leader, unlike the Sandinistas in Nicaragua, appears willing to hold on to power regardless. This is a recipe for instability and violence with consequences that all parties should weigh up carefully before it is too late.

Saddam Hussein is using a heavy hand to stimulate oil prices, writes **Victor Mallet**

Bullying posture in the Gulf

President Saddam Hussein of Iraq is not a man given to gratitude. In the past week he has suddenly turned his notorious vitriol against the very countries which provided him with the financial and military means to bring the Gulf war against Iran to a satisfactory close two years ago.

Kuwait, now threatened by Iraqi troops on its northern border, joined Saudi Arabia in providing Mr Saddam with some \$35bn in interest-free loans to pursue the war which he so rashly began in 1980 after Iran's Islamic revolution.

The US, now linked by Mr Saddam to a Zionist plot aimed at depressing oil prices, lent logistical and political support to Iraq and sent a fleet into the Gulf which had the principal purpose of securing the sea lanes and deterring Iranian attacks on shipping.

Mr Saddam's bellicose attitude makes him more unpopular than ever in an international community anxious for stability, and his ingratitude leaves him surrounded by governments which distrust him, hate him or fear him.

Those Arab leaders who have automatically and carelessly followed the Baghdad line in recent months and accused the West of conspiring to blacken Iraq's name – over a number of issues ranging from human rights and nuclear weapons procurement to the execution of Observer journalist Mr Farzad Bazoft and threats against Israel – are now swallowing their words and keeping remarkably silent.

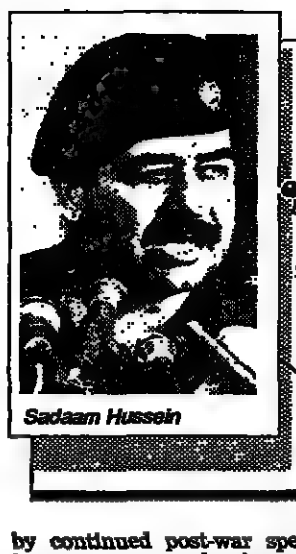
Even Jordan and Egypt, Iraqi allies with governments considerably more friendly towards Iraq than their inhabitants are, must be looking askance at Mr Saddam's latest outbursts.

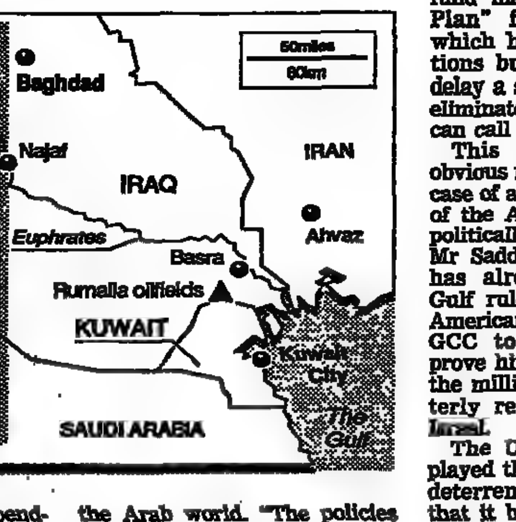
The Iraqi leader has his own reasons for rounding on his Arab neighbours in the Gulf and antagonising Washington. He has said that he wants to achieve higher oil prices by stopping Kuwait and the UAE from producing more than their Opec quotas. He has also said he wants billions of dollars of aid in cash from the Gulf states. Nor does Mr Saddam – who likens himself to King Nebuchadnezzar of Babylon and is likened by others to the late Gamal Abdul Nasser of Egypt – hide his ambition to lead the Arab world.

Saddam has said he wants billions of dollars in cash aid from the Gulf states

What he has not said – although Arab and western diplomats believe it to be a central element in the current crisis in the Gulf – is that he is using an adventurist foreign policy to distract the attention of the Iraqi people from their domestic economic and political misery.

President Saddam finds himself in a frustrating position. He boasts the Arab world's largest army – about 1m men under arms – and he emerged in a strong position at the time of the 1988 Gulf war ceasefire. But he soon found that conventional policies were not enough to revive an economy which was damaged by war, drained by continued post-war spending on weapons development, crippled by at least \$70bn of debt (half of it in the war loans from the Gulf states which they never expected to be repaid) and heavily dependent on fickle oil prices.


Sadaam Hussein



Iraqis, even if they are repressed by one of the world's most effective police states, still privately express their anger about economic hardships and their resentment about the 70,000 Iraqi prisoners of war still held by Iran. Mr Saddam's ministers are often so frightened of him that they dare not tell him uncomfortable truths, but he obviously caught wind of the public mood.

He responded. First he made unexpected overtures to Iran, sending a letter to President Hashemi Rafsanjani in an attempt to reach a final settlement of the Gulf war and secure the release of prisoners.

At the same time he conducted a purge of some of his closest associates and military commanders, many of them from clans based in his own home town of Tikrit. Opposition groups, speculating that Mr Saddam is facing a challenge from former loyalists who fear for the safety of the regime under his erratic leadership, have reported a wave of arrests and sackings and at least one execution.

Mr Saddam then turned to easier targets, adding to his rhetoric against Israel by reviving Iraqi claims to Kuwaiti territory which date back to the days of the Ottoman empire, a popular theme even among his domestic opponents. In the speech last week marking the start of the latest Gulf crisis, he implicated Kuwait and its Gulf allies in a Zionist-American plot against "great Iraq," the "centre of civilisation" of the Arab world. "The policies of some Arab rulers are American," he said. "They are inspired by America to undermine Arab interests and security."

It remains to be seen whether domestic opposition can be fought off with this kind of political ammunition, and whether Iraq might seek other foreign adventures to distract the restless populace.

Mr Saddam has a good chance of success in his efforts to force up the price of oil, and in what Kuwaitis regard as his attempts to extort money from the Gulf states. He may even succeed in shifting the balance of power within Opec away from the price moderation favoured by Saudi Arabia and Kuwait towards Iraq and its demands for higher prices.

Oil prices have already risen sharply ahead of today's Opec ministerial meeting in Geneva after western military attachés in Iraq were allowed – presumably deliberately – to see Iraqi troops heading for the Kuwaiti border at the weekend. The UAE and Kuwait, both chronic quota-busters, will think twice about flouting Opec agreements in future, and yesterday Kuwait shelved its plans to ask for a higher Opec quota later this year. Iran, a firm supporter of Iraqi oil policy, must be delighted by the disarray among its Arab enemies.

The problem for Kuwait and its five allies in the Gulf Co-operation Council – an economic and security organisation set up in 1981 when Iraq was preoccupied with the war – is that they have no credible military deterrent of their own to deploy against Iraq. Saudi Arabia, by far the most powerful member of the GCC, has some sophisticated military equipment but only 66,000 men under arms. Iraq's native population of 18m is double that of all the GCC states put together.

By last night, Iraq seemed unlikely to attack Kuwait. Baghdad was reported to have given Egypt assurances that it would not invade, but having accused Kuwait of stealing \$2.4bn of crude oil from the disputed Rumaila oilfield, Iraq must be tempted to seize the corner of the field which lies on the Kuwaiti side of the disputed border.

The GCC states (Saudi Arabia, Kuwait, the UAE, Bahrain, Qatar and Oman) are left with few options. They can appeal to Mr Saddam's sense of reason and invoke the feeble spirit of Arab unity, but they would have confidence in neither; they can appease him and fund his suggested "Marshall Plan" for Iraq, a solution which has short-term attractions but which may simply delay a showdown rather than eliminate it altogether; or they can call in the Americans.

This last alternative has obvious military benefits in the case of an actual Iraqi invasion of the Arabian peninsula, but politically it plays straight into Mr Saddam's hands. Since he has already suggested that Gulf rulers are pawns of the Americans, an appeal by the GCC to Washington would prove him right in the eyes of the millions of Arabs who bitterly resent US support for Israel.

The US itself has already played the American card as a deterrent, announcing loudly that it began a naval exercise with the UAE on Monday at short notice, and declaring that there was "no place for coercion and intimidation in a civilised world." Some US allies were privately irritated yesterday at Washington's high-profile stand. Officials argued that such statements were adding fuel to the flames and expressed surprise that the UAE had gone along with the idea of a military exercise.

Like Japan, however, the US is acutely aware of its increasing dependence on oil from the Gulf and the need to keep it flowing smoothly through the Strait of Hormuz. According to the latest report from the American Petroleum Institute, the US depended on imports for a record 49.9 per cent of domestic demand in the first half of this year.

Iran must be delighted by the disarray among its Arab enemies

The Gulf region accounts for only a quarter of current world oil production but for 65 per cent of the world's oil reserves. Iraq alone has 10 per cent of world reserves, and the message of this week's events is that it is seeking a dominant role in Opec by asserting pre-eminence in the Gulf.

The question is not so much whether the oil will keep flowing; the Gulf war showed that it continues to do so in almost any circumstances. With the ungrateful Mr Saddam enforcing Opec quotas, aiming for oil at \$25 and then \$30 a barrel, and starting to impose his will on the other Gulf oil producers, the question is at what price.

BOOK REVIEW

Rewards of the Sugar approach

Alan Sugar: The Amstrad Story p366
By David Thomas
Century £14.99

It was Georges Pompidou who quipped (when Mr Alan Sugar was a young businessman) that there were three roads to ruin: women, gambling and technology. "The most pleasant is with women," he said, "the quickest is with gambling, but the surest is with technology."

Alan Sugar, founder of the Amstrad consumer electronics company, had no obvious trouble with any of the three. He is a calculating risk-taker, rather than a gambler. His father was a product of a background of harsh uncertainty in the East End, which destroyed that risk-taking capacity in him but not in his son, nor, in a very different way, in his neighbour, the playwright Arnold Wesker.

Sugar's relations with his mother and wife appear as happy as they are straightforward. And he, ruggedly and without fuss, promotes women in Amstrad according to their revealed capacity and is uninhibited by fears about feminine unsuitability or of child-rearing responsibilities. Callen So, a Hong Kong secretary, became Amstrad's sales and marketing director in the Far East and then came to Amstrad's headquarters as Sugar's special assistant. Marion Vannier, his French agent, was brought in to set up the wholly-owned subsidiary there.

Nor did technology cause him problems: Churchill ("Scientists should be on tap not on top") would have recognised the Sugar approach. His limited understanding of technology did not prevent him from successfully supplanting the noted boffin Sir Clive Sinclair in the pantheon of the British electronics industry's leaders in the late 1980s.

It may be best (like the unparalleled US pioneer Edison) to understand both technology and markets, but Amstrad has done well by letting marketing skills take the lead. The setbacks of last year reduce, but do not eliminate, Amstrad's lead over other electronics companies, by conventional measures of business performance.

The company grew from the proverbial garage in the streets of north London, to flotation with a hundred or so employees in 1980. At the end of the decade, it employed more than 1,600 in what was still a tightly run ship. Its reported pre-tax profits rose from £1.4m on flotation to £160.4m in 1987-88 (falling to a still creditable £76.6m in 1988-89). Amstrad's most successful products – from audio towers, through dedicated word processors, to IBM-compatible personal computers – were all variations on the same formula.

The products were simple because they cut out features that consumers did not really want; they were cheap because they were mass-manufactured wherever it paid to manufacture, with flexibility to shift to cheaper sources; and massive marketing campaigns expanded and transformed their markets by encouraging a whole new segment of consumers to start using them.

David Thomas – who was the FT's electronics correspondent between 1986 and 1988 – has given us what is certainly one of the best biographies of a 1980s businessman. Without resorting to the pseudo-realism of "fly-on-the-wall" journalism, he has written a readable, but considered and convincing personal story woven into the complex technical and business reality of the rapidly changing electronics industry.

I would have liked some more information on Amstrad's exports net of imported components (which would have illuminated his treatment of Amstrad's increasing European manufacturing presence), and perhaps more analysis of the features of the market (rather than merely Amstrad's mistaken strategies) that led to lower exports to the US, Japan and Germany than to the less developed markets of France and Spain.

Thomas also perhaps exaggerates some features, and a reviewer with my vested interests is no doubt prone to exaggerate them further. Certainly I was quite pleasantly surprised to find that training and technology do have a larger role than I thought in the Amstrad story.

Even Sugar himself – the archetypal "barrow boy" of mythology who was earning more than his father from part-time deals before he left school" – attended a Hackney School which might reasonably lay some claim to have been a prototype of the modern city technology college: a secondary technical school with some grammar school pretensions (with a Hackney lad from the London School of Economics as a committed teacher). In the late 1980s Amstrad had also drawn on Cambridge's Silicon Fen to build up its in-house R & D capacity, rather than relying on outside design consultants as it did in the early years.

Thomas is properly cautious about predicting the future, but I came away from the book feeling that Sugar knew what he was doing and could frankly recognise his own mistakes and weaknesses. It is obviously by no means impossible that a man of his calibre will succeed in doing what so many self-made British businessmen have failed to do: create a strong corporate management organisation which can take the company into a new phase of a prosperous (and independent) future.

Leslie Hannah

The reviewer is Professor of Business History at the LSE

OBSERVER

De Benedetti heir looms

■ The promotion of Rodolfo De Benedetti, the 29-year-old eldest son of Carlo De Benedetti of Olivetti fame, to the managing directorship of Cir, the family's quoted industrial holding company, is proof that family capitalism is alive and well and living in Italy.

De Benedetti junior's rise to prominence from a relatively obscure position at Cofide, the financial holding company for the De Benedetti clan, follows the switch by Corrado Passera, Carlo De Benedetti's eloquent ex-McKinsey lieutenant, to the driving seat at Mondadori, Italy's leading publishing group, where De Benedetti is now gradually reasserting control after his battle with TV tycoon Silvio Berlusconi.

It is too early to tell whether Rodolfo is a chip off the same entrepreneurial block as his dad. He looks good on paper, with a degree in political economy from the University of Geneva, followed by some financial polish at Lombard Odier, the Geneva private bank, and Shearson Lehman Hutton, the New York investment bank which has followed his father in a number of deals.

If nothing else, De Benedetti junior carries further down the line the first name of his illustrious grandfather, Rodolfo, still a sprightly 98-year-old, who oversees the family's fortunes from his fastness in Turin.

Euro-Dod

■ Lubbers, Rudolphus (Ruud) Franciscus Marie (Netherlands) Prime Minister and Minister for General Affairs. *Languages: Read, spoken, written: Dutch.*

Hurd, Douglas Richard (United Kingdom) Foreign Secretary. *Languages: read, spoken, written: English, French; Read, spoken: Italian; Read: Spanish.*

Perhaps some people, like the Dutch Prime Minister, are just being modest. We know that he speaks more than that. Or perhaps no-one wants to risk making pretentious claims in the new Dod's European Companion 1990.

Anyway, it is good to hear that the book exists. It will go alongside Dod's Parliamentary Companion at home, the best of the political reference books. The European version, just published, includes all Members of the European Parliament and senior EC officials.

Which of the latter was responsible, I wonder, for yesterday's decision to change the negotiating purpose of the EC-Efta talks from a European Economic Space to a European Economic Area on the grounds that the word space triggered "the reflex of looking up into the sky, when we should keep our eyes firmly on the ground"? Ma foi!

Hard dimes

■ The Smithsonian Institution in Washington DC ranks as one of the finest collections of museums and galleries in the US, so it comes as something of a shock to hear that it is in financial difficulty.

Mr Robert McC. Adams, the Smithsonian secretary, says that impending Federal budget cuts will mean laying off staff, scrapping projects, and cancelling expansion plans. Among the programmes at risk are a \$300m annexe to the National Air and Space Museum at Dulles Airport, a new African American "presence" on the Mall, the redevelopment of the old General Post Office Building into museum and office space; and the expansion of the Hirschhorn Museum.

By the imperial standards of the Smithsonian, this all sounds draconian. Comprising 15 museums and galleries, as well as the National Zoo, the Smithsonian this year has a total budget of just over \$350m. Some revenue stems from government contracts, grants and trust funds. But the bulk, \$266m, comes out of the Federal budget, and in an era of budget austerity, even worthy causes have to suffer.

Yet the Smithsonian has undoubtedly made life a lot more difficult for itself by its own management weaknesses. Last year, an internal petition warned of "a proliferation of staff positions" which was causing confusion. Last week, Mr Dean Anderson, a top executive who was very popular among staff, resigned abruptly – though he will continue to advise Mr Adams.

These public spats – plus reports of deficiencies in the trust funds – will make it far more difficult for Mr Adams to persuade Congress to approve a \$307m budget for the coming fiscal year.

Craven OK'd

■ John Craven, the chairman of Morgan Grenfell, now owned by Deutsche Bank, and the first foreigner to be appointed to the board of a German bank, has had to do some pioneering regulatory work.

The formidable-sounding Bundesaufsichtsamt für das Kreditwesen, the Berlin-based regulators of the German banking system, have two requirements of bank directors. One is that they have direct experience in the management of a German bank, or at least a foreign bank in Germany. The other is that they speak German.

At the time of Deutsche Bank's acquisition of Morgan last winter, Craven qualified on neither count. But things have moved since then.

Craven worked hard at his German (his knowledge of Afrikaans and Latin were a help, he says) and then went to Berlin to demonstrate his newly acquired linguistic skills. These, plus his long experience of the banking business in London, appeared to satisfy the authorities.

All very thorough and very German. But it does make one wonder whether Frankfurt is hampering its chances of becoming a major international financial centre.

Art of the state

■ The Japanese have found a good way of disguising their trade surplus. They ascribe imports of art by a particular country's artists to that country's account, no matter where the works actually came from. Thus, all purchases of Cezannes, for example, are classified as imports from France even if they were bought in the US. This helps explain why Japan's trade figures show a deficit with France last year of \$248m, while France's figures show a \$4.5bn deficit with Japan.

Does this mean that the French figures are more accurate? "Not necessarily," comes the po-faced reply from a Tokyo official, proving once again that the Japanese will never cede a point without a struggle.

ECONOMIC VIEWPOINT

Sterling in Danger — from Sir Alan

By Samuel Brittan

Although Sir Alan Walters' Sterling in Danger (Fontana £6.99) does not justify the advance hypo, it has some interest. The first three chapters on exchange rates are a flawed, but still useful, non-technical introduction. Chapters Four and Five, dealing with international systems, go downhill, repeating familiar positions on the basis of ageing recycled studies made by others. Chapter Six, on Policies and Politics, is only worth discussing because of Walters' connections with Mrs Thatcher. There is a lift in the final chapter, which advocates a commodity-based currency, "Ecom," but is too sketchy and a digression from the main theme.

Professor Walters starts his book by admitting that there is much to be said for absolutely fixed as well as freely floating exchange rates and that his fire is directed against pseudo-fixed systems such as crawling pegs, target zones and, above all, the European Monetary System. But he cannot maintain this impartiality and many of his debating points are in favour of freely floating rates and against fixed rates of any kind.

The author's biggest concern is not, however, with the international system. It is to refute the proposition that a small- or medium-sized inflation-prone country can reduce inflation more securely (that is with less risk of relapse) by tying its currency to that of a non-inflationary group than by depending on unreliable domestic monetary indicators. That argument is dependent on time and place and it applies only to the more inflation-prone partners. No one suggests that German inflation rates have benefited from the EMS. They have simply remained low enough to serve as an anchor for others.

A key chapter in my copy is so full of annotations and exclamations that it looks like Beckmesser's slate in the Meistersinger

Walters accuses me of asserting without evidence that "confidence" will be greater under a fixed exchange rate regime than under an alternative. But he does not say what the confidence refers to. It is, in fact, quite precise: it is that inflationary pay awards or other cost increases will not be validated by the depreciation of sterling. It has nothing to do with wage negotiators sitting down to discuss the "transitory variability of the exchange rate" as Walters suggests. The argument will only apply if there is a stable currency to act as an anchor and if hard-earned experience has made people believe that the anchor will hold.

An example of an ageing recycled study intended to refute this proposition is in the table reproduced here, which, up to 1985, comes from the Walters book. The middle column, which includes the US and Japan, is of questionable relevance.

The principal flaw, however, is to take the period since 1979 as a unity. This ignores the change in the nature of the EMS after 1983 when President Mitterrand switched to a hard franc policy designed to minimise realignments. An extension of the Walters data to cover 1985-89 shows strikingly different results. The weighted average EMS inflation rate declines from 8.3 to 3 per cent, and is now lower not only than the other European countries but even than the total non-EMS group. If Austria and Switzerland, which closely shadow the Mark, are transferred to the EMS group, the results are still more striking.

It is true that the EMS output growth in 1985-89 was still below the outside average. But the claim being discussed is that the EMS has helped to bring inflation down, not that it necessarily stimulated motherhood, output and other good things. As a mere journalist I cannot help noticing that output in the core EMS countries is now proceeding at capacity rates, while it has had to slow down drastically in Britain and other peripheral countries needing to get a grip on inflation.

Inevitably, we hear a lot in the book about the interest-parity theorem which has been rediscovered as the "Walters effect." This just states that the interest rate differential between two countries is equivalent to the expected change in the exchange rate.

Thus if the Mark-peseta exchange rate were completely rigid, then Spanish interest rates, instead of being nearly 7 percentage points higher, would have to converge on German ones. But so then would the inflation rate for internationally traded products – which would eventually percolate to the rest of the economy.

There is a genuine problem (raised by many others apart from Walters) about how to manage an exchange rate system in the transition period while inflation differentials are narrowing but still exist. Walters does at least now concede that Spain and Germany can maintain differential interest rates while there is still an exchange rate band and a real, if small, possibility of realignment.

Nevertheless I share his dislike of basing the possibility of differential interest rates on uncertainty and policy surprises. One standard alternative expounded in a world context in Nigel Lawson's 1987 IMF speech (which Walters so much disliked) is that timely use should be made of modest realignments "moving the mid-point within the confines of the existing ranges." Speculators need never then enjoy a one-way bet. Walters ignores this feature in his battles with straw men. Unfortunately Walters seems uninterested in discussing his own problem as one to to be tackled, rather than as a missile to throw at the EMS.

PERFORMANCE COMPARED

Yearly average % change

	EMS	Non-EMS	European Non-EMS
Inflation Rate			
1973-79	9.1	9.6	12.5
1979-85	8.3	6.9	8.8
1985	4.8	3.8	5.9
1985-89	3.0 (2.9)	3.4 (3.4)	5.1 (5.5)
1990*	3.6 (3.6)	4.9 (4.9)	7.8 (8.4)
Growth of GDP			
1973-79	2.8	2.9	1.9
1979-85	1.7	2.7	1.8
1985-89	2.9	3.7	3.6

*Year to April.

N.B. The Non-EMS countries are: Austria, Norway, Sweden, Switzerland, Finland, Spain, UK, Canada, US, Japan. The European Non-EMS consists of the same countries excluding the US, Japan and Canada. GDP weights are used. The figures in brackets put Austria and Switzerland with the EMS.

Source: Walters, P. 74; A.G. Burrell, London Business School.

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Alas we cannot avoid Professor Walters' unfortunate foray into economic journalism. Chapter Six in my copy is so full of annotations and exclamations that it looks like Beckmesser's slate in the Meistersinger (which was used to tick off mistakes in singing competitions).

The markings are particularly thick where I am able to check. One example is Lawson's supposed announcement at the IMF in 1987 that exchange rates were the main guide to monetary policy. His text says: "We (meaning the Group of Seven) have all been prepared in practice to give significant weight to exchange rates in the conduct of monetary policy" – a world of difference for anyone sensitive to words. Nor did Lawson say at the beginning of 1985 that "most attention" would be paid to the exchange rate. He merely said that "benign neglect" was not an option – again a world of difference.

I myself am supposed to have "lavished approval" on David Mulford's "reference ranges" for exchange rates when I merely reported them and added a criticism of the "huge omission of any systematic understanding about accompanying domestic monetary action."

Walters gleefully reports Mrs Thatcher's veto on the then Chancellor's attempt to take sterling into the EMS at DM3.75 in November 1985. He adds that, if it had succeeded, interest rates would have had to rise to 17 to 20 per cent in 1986 to maintain sterling, which instead fell by more than a quarter. This bizarre estimate is based on the Treasury's rule of thumb that a 4 per cent change in sterling is equivalent to a 1 per cent change in base rates. But the rule – for what it is worth – relates to domestic demand effects (Nominal GDP to be precise) and is not intended as a guide to managing exchange rates.

Walters tries to demonstrate his fairness to Lawson by saying that policy in 1983-86 was almost ideal. But he blandly quotes from a 1985 memorandum of his own saying that, if the growth of M0 could be held to zero, inflation should be eliminated by the late 1980s, as if this were a simple mechanical act. The Treasury and Bank cannot directly control M0 (nearly all notes and coin), which is the small change of the system. They can only influence it by raising interest rates to depress income and expenditure and thereby the desire to hold cash. There was no painless way by which a tighter monetary policy could have been obtained without considerably higher interest rates and it would have been better to say so.

The author is fond of picking short periods such as 1986 when sterling fell, but UK inflation was low. Yet he himself mentions the plunge in oil prices and mortgage rate reductions which distorted the figures. Indeed, it was the large fall in sterling in 1986 which laid the basis for subsequent inflationary problems, both directly through providing a fat profit cushion to finance inflationary pay increases and indirectly by removing a pressure to maintain higher interest rates – a pressure which would have been far more effective than arcane arguments about M0 movements which often gave opposite indications depending on whether one looked at three-, six- or 12-month periods. Indeed the real criticism of Lawson and his Treasury advisers is not that they paid insufficient attention to M0, but were too often falsely reassured by it.

Of course, sterling should not have shadowed the Mark at 3DM in 1987-88 but at a good deal higher rate. This would have happened – and Prime Minister, Chancellor, Bank of England, advisers and all been saved from their own mistakes – if the UK had joined the EMS in 1985 (an excellent example of the superiority of rules over discretion). But Walters glories in the part he played in stopping this initiative.

Walters writes that the long-delayed monetary squeeze was not finally in place until October 1989, when base rate was raised to 15 per cent. I take him to mean "better late than never." What then was he doing in the very same month while still officially economic adviser to the Prime Minister, telling high-level American audiences that sterling needed to fall (it was then dipping below 3DM) to avoid a severe recession? In his own terminology he was calling for a loosening of policy. And, in any case, how can he reconcile such strong views on where sterling ought to go with the objections to exchange rate objectives which are the supposed aim of the book? Those of Walters' friends who advised him to rush into print were not doing him a service.

LOMBARD

Facing up to the ethnic issue

By Michael Holman

Africa's advocates of multi-party democracies have the same problem as Pooh Bear had with his song "Ho! for the life of a bear". Readers may recall that Pooh managed the first line without any difficulty, but was then stuck for ideas. Perhaps if I sing the first line very quickly twice over, he mused, the rest will just come to me. He did; but it didn't.

The first line of the democracy song can be heard on the streets of Abidjan, Lubumbashi, Lusaka, Nairobi and elsewhere. Out with whatever authoritarian figure has been in power for decades, and in with a multi-party system, goes the opening line. The second line, if there is one, starts with a call for a bill of rights and a free press, and then tails off.

This is splendid, as far as it goes. But the questions that need to be asked cannot be heard above the applause from a western audience finding doubtful parallels with the revolutions in eastern Europe.

Why did the multi-party system in Africa fail in the first place? What additional checks and balances can be introduced to curb executive power, given that the usual ones – such as an independent judiciary – were so rapidly and easily eroded?

As Nigeria's former military leader, General Olusegun Obasanjo, pointed out in a speech last November, he presided over a return to civilian rule in 1979 after multi-party elections under an admirable constitution. But the military were back in power after four years of corruption and mismanagement by political parties "stratified on a tribal basis."

How *does* Africa cope with the fact that many of its boundaries were drawn either arbitrarily or strategically, leaving pre-colonial nations divided? What role is there for chiefs and traditional spiritual leaders? Above all, how does Africa deal with that most sensitive issue, tribalism? As long as voters feel a primary loyalty to tribe rather than ideology, there is the likelihood that political parties in Africa will reflect ethnic divisions.

Undoubtedly Africa's imagination has been caught by events in eastern Europe. Many of its governments are as a result shakier, losing important allies. It is developments in South Africa, however, which will have the most impact on the African upheaval that may be under way, and be most relevant to the continent's future.

Apartheid has done appalling harm in the Republic. The defenders of apartheid have wrought great damage on their neighbours, using economic muscle or military might. But the malign influence has spread even further. It has helped stifle legitimate debate in Africa and elsewhere about ways in which ethnic, cultural, linguistic, and religious differences can be accommodated, and about how minorities can protect themselves.

Apartheid made public debate of these issues if not taboo, then highly sensitive. There seemed to be an overriding concern that no shred of intellectual comfort should be given Dr Verwoerd and his successors, however bizarre and irrational might be the link between recognising and accommodating ethnic tensions, and white subjugation of black South Africa.

That may be changing. A senior official in an African one-party state, where the government is under growing pressure, recently spoke frankly (and in private) about the difficulties of introducing a multi-party system when Africa's post-independence history had shown that a winner-takes-all system had failed. Ways had to be found, he said, to ensure that the legitimate interests of tribes or minorities were represented at all levels of government, without too much dilution of executive authority.

A few days earlier, a cabinet minister in Cape Town made remarkably similar points. But it was the black African and not his white counterpart who made the assertion: "Ethnicity and how to cope with it will be the issue for Africa in the 1990s."

It is time Africa's leaders in the wings brought this concern into the open, and moved on from the opening lines of their song.

LETTERS

Bonn as capital of a united Germany

From Mr Hartmut Leithe.

Sir, I was somewhat amazed by the statement backing Berlin as the capital of a united Germany made by President Richard von Weizsäcker ("Block capitals," Observer, July 23) after he was awarded the honorary citizenship of Greater Berlin recently.

His feelings seem to be in absolute contradiction to the attitude of federalists, such as myself, in the western and southern regions of Germany.

Berlin has been our capital three times: during the Reich of Bismarck which ended with Versailles; during the Weimar Republic, which ended with Hitler; and during the Nazi period, which ended in disaster and dismemberment. Of course, it cannot be argued that all these dreadful historical developments were the fault of Berlin, but over the past century Berlin has manifestly not provided a positive environment for Germany to find the the appropriate *Zeitgeist* to meet the political challenges of the time.

During the post-war period the division of Berlin gave the city great symbolic value as the place where both the East-West split of the continent and the western world's will for freedom were most apparent. This made Berlin an outstanding city. As a young man I studied in Berlin and met my wife there. I love the place. Berlin's positive value during the last 40 years, however, has not ended the memory of the negative experiences of the previous 70. Neither can it push aside the very positive experience we have had with Bonn as capital of the Federal Republic since 1949.

Bonn is not, as some of its detractors argue, a rarefied town – Bonn represents another Germany, namely the Federal Republic and we are happy with it.

I can imagine that the whole matter is also a sensitive question for our neighbours, who might consider the change of capital as a change in German policy. Although I am dismayed at the lack of understanding for us Germans revealed by the recent memo to the British Prime Minister on the subject, I nevertheless feel that other countries' views should be taken into consideration.

Therefore from both the domestic and foreign points of view, I believe that the capital should remain in Bonn.

Hartmut Leithe,
Fröbelstrasse 7,
Erkrath Hochdahl,
near Düsseldorf,
West Germany

A better way of reaching a single European currency

From Mr Ben Patterson MEP.

Sir, You report my colleague, John Stevens MEP, as having "attacked proposals by Mr John Major, the Chancellor of the Exchequer, for a 'hard Ecu' to act as a common European currency," while giving evidence to the House of Lords ("Brittan attacks worriers," July 20).

It should be made clear that this is not the official view of Conservatives in the European Parliament, which adopted a policy statement on economic and monetary union on July 10.

We see the UK proposals as "a method of making the transition from national currencies to a single currency which would avoid economic shocks ... and enable the Community to get used to the Ecu." It would specifically take the place of the somewhat vague Stage 2 of the Delors Plan.

However, we also believe that the UK proposals are unlikely to succeed either technically or politically unless they are seen to be, not a substitute for, but a better way of reaching a single currency. If the process is left open-ended, six or seven EC countries are likely to go ahead rapidly with the creation of a greater D-Mark area. In these circumstances, as the Governor of the Bank of England pointed out during his recent visit to Strasbourg, "two-speed Europe" can turn out to be mere short-hand for "two-tier Europe."

Ben Patterson,
Chairman,
European Democratic Group working party on EMU,
Elm Hill House,
Hawkhurst, Kent

British Telecom's policy on cross-subsidies

From Mr Iain Vallance.

Sir, I agree entirely with the conclusion of your editorial comment ("Cross-subsidies on phone lines," July 25) – "competition should be seen as a tool for reducing cross-subsidies." That is precisely what British Telecom is arguing for and a prerequisite is some relief from the regulatory constraints on our tariff structure which prevent the bulk of the current cross-subsidies from being reduced.

I agree, too, with the need to define and quantify the cross-subsidy with care. It currently comes in two forms. The first and by far the most significant (more than £1bn a year) derives from the tariff distortion between call charges and exchange line rentals. Cost related tariffs, which you have been advocating in the context of international calls, could eliminate this first form of cross-subsidy.

The second derives from conditions in our operating licence which require us to provide certain services, irrespective of their underlying economics, such as free 999 calls, uneconomic payphones and rural services, and the universal service obligation.

The Australian "precedent" that you quote refers to what they call their "community service obligation" – a notoriously difficult thing to define. If we were to put our UK community services out to tender, as you suggest, I think it unlikely we would find many bidders. But it is not these services that are BT's current concern, rather the major distortions in tariff structure, which are relatively easy to define.

Finally, I agree that, Oftel willing, further increases in line rental charges, should be matched by greater cuts in call charges than we have delivered to date. It may be helpful to put this into perspective. Assuming the retail price index minus 4.5 price cap on UK calls and lines remains in place, an increase of 10p a day on the line side would produce an average 30 per cent reduction in daytime UK call charges. We believe such an adjustment would lead to a substantial boost in the use of the UK telecommunications network, to the advantage of the UK economy as a whole.

Mr Pearson (Letters, July 25) questions my statement that the key players in global telecommunications have protected domestic markets. All other European players have domestic monopolies of their fixed networks. Non-Japanese competition in Japan is minimal. The maximum foreign holding in a US telecommunications company using radio spectrum is 25 per cent; any long distance carrier in the US, with a foreign director on its board, is classified in regulatory terms as "dominant" ...

The UK already has the most open telecommunications market in the world. We could certainly do with more of it. But, if BT is to succeed in world markets, regulation, at home and abroad, has to be fair.

Iain Vallance,
Chairman,
British Telecom,
81 Newgate Street, EC1

Jobs for round or thin graduates

From Mr James Murphy.

Sir, According to Richard Pearson (Letters July 17) the problem with graduate unemployment is "not with the level at which graduates are studying ... as with what they are taught." Like Michael Prowse ("In search of parity of esteem for pupils, July 16) and Kenneth Miller (Letters, July 17), Mr Pearson sees the solution as residing in reforms which will produce "broader based and more soundly educated pupils."

Assuming that educational reform will effect this transformation – and not, as the Government fears, reduce quality – Mr Pearson still needs to explain how cultivating "more rounded" graduates will, in the absence of economic growth, increase the number of jobs which actually require such an extensive and expensive education.

It would indeed be a pity, if the main consequence of further educational upheaval was a surplus of round graduates rather than a surplus of thinner types as now.

James Murphy,
Department of Educational Research,
University of Lancaster

FINANCIAL TIMES
Thursday July 26 1990

MOSCOW TIGHTENS UP ON FOREIGN AID

Comecon to be hard currency area

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev has issued a decree ordering the Soviet Government to insist on payment for exports in hard currency from Comecon partners from January 1.

The decree provides the legal basis for a policy decision already announced by the Soviet authorities, and removes any lingering doubt that Moscow would go ahead with a move which could aggravate the balance of payments deficits of its one-time socialist trading partners.

The decree also provides a grim warning to developing countries such as Cuba, Vietnam and Ethiopia, that in future Soviet aid will only be granted after taking into account the ability to provide it.

A cut in foreign aid has been announced by Mr Nikolai Ryzhkov, the Prime Minister, as one way of curbing the budget deficit when he draws up emergency cuts this autumn.

Mr Gorbachev's decree instructs the Council of Ministers "to ensure a transition as of January 1 1991, to the settlement of accounts with other Comecon member states at world prices, in freely convertible currency."

The move has been welcomed by Hungary, but other Comecon member states, like Poland, Czechoslovakia, Romania and Bulgaria, are more cautious. Although Soviet oil and gas exports are currently set slightly above the world price, the differential is much less than that for east European manufactured exports. The net result would almost certainly be substantially in Moscow's favour.

However, the Comecon member states are seeking to keep much of their trade on the basis of inter-governmental agreements, rather than open competition with alternative suppliers, until their economies have had a chance to adapt to world market conditions.

Soviet analysts meanwhile fear that pricing in hard currency could actually hit the Soviet Union harder because the prices of imports from eastern Europe will be kept artificially high.

Mr Gorbachev's decree concludes with an instruction to the central and republican governments to make "maximum use of new forms of economic relations with foreign countries," and to ensure that conditions are created for "wide participation of enterprises and their associations in foreign economic relations."

Central committee opens press centre; Crackdown on Armenian militants, Page 2

Colombia receives share of seized drug assets

By Sarita Kendall in Bogotá

A NEW agreement between the US and Colombia will allow the handover of drug-trafficking assets confiscated in the US with Colombian help. Signed in Bogotá on Tuesday, the pact represents an important step forward in bilateral co-operation on drugs.

The Colombian Government has been pressing for a share in captured assets for some time. The memorandum recognises that information is often obtained and supplied at considerable risk to Colombia, and says that this should be taken into account by the US.

No figures are mentioned, though the US ambassador in Bogotá referred to "several millions" of trafficking-generated dollars being returned to Colombia in the next few months. It is not clear whether properties and other assets already confiscated are affected.

The US authorities will decide the amount or percentage to be transferred in each case, and this will vary according to the degree of Colombian collaboration.

The US Drug Enforcement Agency is financed out of seizures of drug traffickers' assets, which last year totalled almost $1bn. Large amounts of property – including a pedigree horse-stable owned by the Ochoa family of Colombia, apartment blocks and farmland – have been seized in the US. Bank accounts in several states have also been confiscated after courts had established that the funds were obtained from trafficking, and hundreds more have been frozen for investigation.

Now, when Colombia co-operates with evidence or information in such cases, it will be able to claim some of the profits, and the money will be channelled into the fight against drugs.

Colombia's own efforts at asset confiscation have had limited success. Since last August, the police and army have taken over hundreds of properties, but more than half have already been returned by courts because of the difficulties (compounded by pressures on judges) of proving illicit origin.

Despite overwhelming evidence, including cocaine, machine-guns and gold bars found in hidden bunkers, the farms of Gonzalo Rodriguez Gacha, killed last year in a battle with police, have been handed over to his heirs. The courts found that, on the death of a Colombian citizen, all legal proceedings automatically cease, and it becomes impossible to prove the drug connection. One outraged army general protested: "We are winning the war militarily but losing it judicially."

● Unidentified gunmen murdered a government representative who was investigating the massacre of peasants in northern Colombia, police said, AP reports.

The representative, Maria Esther Restrepo, 52, was shot dead with a police escort as she was leaving her office on Tuesday in the northern banana-growing region of Urabá, police General Octavio Vargas told reporters, adding that three unidentified gunmen had escaped.

Ms Restrepo, the regional attorney-general, was investigating the massacre this year of 42 peasants in the northern state of Córdoba. They had been kidnapped from Urabá.

Right-wing paramilitary death squads financed by drug traffickers have been implicated in this and other massacres.

New row erupts over Rover Group sale

By Philip Stephens and Charles Leadbeater in London

A FRESH political row over the privatisation of Rover Group erupted yesterday with the publication of hitherto secret assurances about future financial assistance which the UK Government gave British Aerospace over its purchase of the state-owned car company.

The House of Commons Trade and Industry Committee, dominated by the Conservatives, said that it intended to demand further evidence following its receipt this week of a copy of a letter sent by the Department of Trade and Industry to BAe at the time of the sale in 1988.

The disclosure of the letter came as the aerospace company announced that it intended to take a case to the European Court of Justice to challenge the European Commission's decision to require BAe to repay £44.4m ($80.8m) in state aid which it received when it agreed to pay £150m for Rover.

BAe said its board's responsibility to shareholders left it with no option but to challenge the decision through legal action, even though the Government had indicated its intention to accept it.

The two developments will provoke renewed controversy over the privatisation, just as the Government is facing criticism for considering privatising PowerGen, the electricity generator, through a sale to Hanson, the industrial conglomerate. The Labour Party will use the publication of the DTI letter to support claims that the Government has not disclosed the full extent of the financial concessions given to BAe to assist the Rover deal.

The letter was sent to Professor Roland Smith, chairman of British Aerospace, by the DTI on behalf of Lord Young, former Trade and Industry Secretary, in July 1988. It stated that the Government was obliged by its agreement with the Commission not to offer any further aid to Rover Group.

It then added: "I wish to make it clear that this provision does not in any way constrain British Aerospace in respect of its non-Rover Group businesses from seeking financial assitance from the Government...any such application would be sympathetically considered".

The letter goes on: "The Government would take fully into account not simply the the overall financial position of British Aerospace (where this is appropriate) but also the demands placed upon it by the performance and obligations of the Rover Group business."

Using some of the strongest language available to a parliamentary committee, the MPs said it was "not easy for us to reconcile this letter with the evidence we have received" from Lord Young and Professor Smith.

The committee was also concerned to know why the DTI had failed to show it the letter when other correspondence regarding the sale was made available to the committee. As a result, the MPs had decided to delay publication of its report and to seek further evidence from Lord Young, Mr Smith and from DTI officials.

Amid anger among Tory as well as opposition MPs about the way that the information had been withheld previously from parliament, Mr Gordon Brown, the opposition trade and industry spokesman, demanded an immediate Commons statement on the issue before Parliament breaks for recess today.

Mr Brown said it was now clear that BAe had been offered a major additional "sweetener" to buy Rover and that its existence had been withheld from Parliament during the two years it had been investigating the sale.

The letter appears to be a direct response to a letter Professor Smith sent Lord Young during the Rover negotiations. That letter said BAe's board was becoming increasingly concerned about relations with the Government in both civil and military fields. Professor Smith said the company's board hoped that if it sanctioned the Rover deal there would be "some demonstrable evidence of HMG's responsiveness to that concern."

BAe would not divulge details of its challenge to the European Court. But it is understood to focus on the £44m in state aid rather than the £40m due to be paid back relating to the restructuring of the Leyland-Daf commercial vehicles operation.

Toyota enquiry, Page 8

Iraq, Kuwait to hold talks

Continued from Page 1

dad to Kuwait City on Tuesday by President Hosni Mubarak of Egypt, who has attempted to mediate in the unequal confrontation between the might of Iraq and the wealthy but tiny state of Kuwait. "The Kuwaitis all looked a bit ashen-faced when Mubarak left," said one diplomat in Kuwait.

Mr Mubarak said last night that Kuwaiti and Iraqi representatives would meet in Jeddah on Saturday or Sunday and that Mr Saddam had agreed not to send further forces to the Kuwaiti border and to stop media attacks on Kuwait from today.

Kuwait, however, is known to be anxious to draw other Arab states and the Arab League into the negotiations to ensure a fair settlement of the border dispute.

Kuwaitis do not believe a full-scale invasion is imminent and say Iraq is throwing its military weight around to extort money from the Gulf states in an attempt to rescue its debt-burdened economy.

Washington has warned Iraq against military action with a series of statements and an announcement that a joint naval exercise is underway with the UAE.

Major ignores fall in sterling following inflation warnings

By Anthony Robinson and Andrew Marshall in London

MR JOHN MAJOR, the British Chancellor of the Exchequer, yesterday ignored the pound's fall in reaction to his warnings on inflation earlier this week and welcomed the currency's recent strength.

He also reconfirmed the Government's commitment to enter the exchange rate mechanism (ERM) of the European Monetary System. "That rubicon has been crossed," he told a parliamentary committee, but declined to be drawn further on either the terms or timing of entry.

The pound has rallied in recent weeks on speculation of early entry to the ERM, but some of the foreign exchange market's enthusiasm has waned in the past week.

Sterling closed sharply lower yesterday in London at DM2.9325, more than two pfennigs down on Tuesday's close, and $1.8135, more than a cent down.

On its trade weighted index, the pound lost 0.8 to close at 92.9.

The pound had weakened in New York and the Far East on Tuesday night, after warnings from Mr Major that inflation was proving difficult to contain.

It changed little in London from its opening levels.

Mr Jim O'Neill, head of financial markets research at Swiss Bank Corporation, said: "The market has got tired of hearing EMS talk. People are becoming more sceptical about early fulfilment of the Madrid conditions in view of inflation, and are looking more at the fundamentals."

There was also growing instability in other currencies, which had refocused dealers' attention, he said.

Mr Major made it clear that although ERM stability had increased, he still saw the possibility of realignments, noting that the mechanism "doesn't have the rigidity that some claim."

The EMS has been under increasing pressure in recent weeks from the weakness of the DM and the Dutch guilder, which are bumping along the bottom of the system, while the Spanish peseta is at the top.

This has raised the possibility of another realignment if the imbalance does not even out.

Mr Major strongly defended his evolutionary alternative plan for eventual monetary union, describing the hard Ecu proposal as "the strongest counter-inflationary proposal yet put before the EC."

Fielding criticism that the Ecu proposals were "too little, too late" to prevent other EC countries from going ahead with monetary union on their own, he warned again of the danger of allowing a two-tier Europe to develop.

"Perhaps we put our proposals forward too soon. Only now are some EC countries starting to look carefully at the practical problems involved in moving from stage 1 to stage 3 of the Delors report," he said. "The debate is just beginning."

He called the Government's "brick by brick approach" a practical attempt to put flesh on stage two of the Delors commission report.

Currencies, Page 36

European mergers 'may lead to damage in competition'

By Lucy Kellaway in Brussels

THE PROSPECT of the single market has led to a rush of mergers among Europe's big industrial companies, which in some sectors may have damaged competition, according to a European Commission report released yesterday.

The publication of the 1989 report on competition in the Community – which underlines the need to prevent any anti-competitive mergers – came as the Commission approved a package of legal measures needed to establish the ECs new merger regulation by its September 21 deadline.

The report voices general disapproval of mergers among conglomerates which it fears may invite stand-off agreements with other conglomerates, or encourage predatory pricing.

The Commission said yesterday that it would carry out "a selective monitoring of mergers" in the sector under the powers to be given it by the merger regulation.

The report also singles out the food and drink industry as one in which competition may have suffered most because of the recent spate of takeovers.

It notes that a "close watch" will be kept to make sure that the need to compete with the big US food giants is not hurting competition at home. There were 76 big food and drink mergers in 1989, most of which were cross-border deals involving companies with turnover of more than Ecu2bn ($2.52bn) each.

Industrial mergers continued to get bigger in 1989, while the desire to increase market share become by far the most important motivation. However, officials said yesterday that the big merger boom is subsiding, and that the number of big deals this year had declined sharply.

The report shows that while the number of industrial mergers increased in 1989, the amount of activity in services – especially in the banking sector – and among distribution companies fell.

The Commission yesterday completed the details of merger regulation, which come into force in two months and will give Brussels sole power to vet mergers with a turnover of more than Ecu5bn ($6.3bn) Among the points settled were:

● Joint ventures will be treated under the regulation if they result in a new economic unit on a lasting basis. By contrast, if they are designed mainly to co-ordinate the economic behaviour of two or more companies they will be dealt with under the general competition rules, as at present.

● All large merging companies will have to fill in a notification form, which has been greatly simplified so that companies need only provide information relevant to their particular merger. The Commission's competition report envisages that some 50 reports may be submitted each year, although officials said yesterday that given the fall in merger activity the actual number might be closer to 25 or 30.

● A task force has been established within the Commission's competition department to carry out the merger regulation. It will consist of some 30 senior officials, many of whom have been recruited from merger control authorities in member states.

The officials will work in three groups each dealing with different areas, and will have to decide whether to investigate a merger within a month of getting the form, and deliver a final verdict within four months.

Mr Colin Overbury, the present head of the task force, expressed confidence that the new staff would able to meet what others see as an unrealistically tight timetable.

● Any "ancillary restrictions" which accompany most mergers, such as non-competition clauses, are permissible unless they amount to restrictive agreements, which are not allowed under the Treaty of Rome.

Brussels offers flexibility over regulations on working hours, Page 2

THE LEX COLUMN

Hopes deferred on sterling

In terms of the Machiavelli theory of currency management, it has been a worrying week for sterling. Last Wednesday it was pushing through DM 3; yesterday it was briefly below DM 2.93. Last week Mr Major was talking the currency up; this week he was warning against undue optimism on inflation. The markets are in tolerant mood, but there is one thing they do not want to hear: that there has been slippage in the timetable for entry into the ERM.

In fact, it seems more a case of simple overshoot. The ERM story had put almost 30 pfennigs on the sterling/D-Mark rate since early May. This far ahead of entry it cannot matter greatly to the Government whether today's rate is DM 2.90 or DM 3, except insofar as the higher number has a tightening effect on policy. It was scarcely possible for Mr Major to keep feeding the market with an ERM story every time he spoke; but if sterling shows signs of undue weakening, some further story can doubtless be contrived.

In addition, there has been a marked strengthening of the D-Mark ever since Mr Greenspan announced the Fed was easing a fortnight ago. At that point, the D-Mark on a trade-weighted basis was at its lowest point this year; it has been climbing ever since. That apart, the chief threat for sterling will come if the markets have talked themselves into the belief that ERM entry is coming in weeks rather than months. Entry before the year end still looks the best bet; but it is increasingly difficult to see how it can come before mid-October at the earliest.

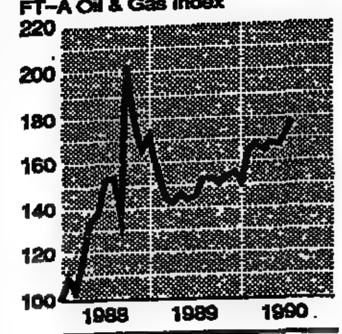
Lasmo

Contemplating Lasmo's interim figures yesterday, its strong cash flow, its low gearing, and its prospects of doubling its oil production by the mid-nineties, it is hard to think back to a time when British Gas thought it could scoop the company up with a hostile raid. It would not do, though, to keep ramping Lasmo's stock up, after 18 months in which it has outperformed the oils sector more or less continuously. Though there are as many net asset value estimates as there are brokers, the average estimate of between 350p and 400p leaves Lasmo's shares at 445p on an unusually high premium.

The strength of Lasmo's management and the wide geographic spread of its drilling programme justify an above-average rating. But as Lasmo itself points out, the business is run on a long-term basis. Though an oil price per barrel of $19-plus is obviously excellent news, all Lasmo's developments are planned on the basis of making a profit at $15. Investors are never as prudent as that, but they should be wary of pushing the shares much higher at this stage, given the continuing volatility of Opec.

Lasmo

Share price relative to the FT-A Oil & Gas Index



Defence

The UK defence review brings little for defence stocks except confirmation of gloom. There are few details on programmes as opposed to manning levels, though the news seems worse than expected for the army, mixed for the air force and better – submarines perhaps excepted – for the navy. The likelihood is that bad news will come through bit by bit, or escape public notice entirely; for instance, in the reduction of the £1.6bn or so of current expenditure on research and development projects. Immediate cancellation might mean compensation for the companies affected; more likely is a gradual withdrawal, whereby the burden of rationalisation is borne by the defence industry itself.

Unit trusts

By pulling £243m out of their in-house unit trusts in June, Allied Dunbar and Standard Life have done more than just mess up the Unit Trust Association's monthly sales figures. The scale of the outflow also usefully demonstrates, first, the extent to which an uneven UK tax regime has distorted flows of savings; and second, the merits of the Inland Revenue's much-maligned plans for reforming life assurance taxation. Historically, the unit trust industry's capital gains tax exemption gave life insurers every reason to park chunks of their life funds in their unit funds. It is only the Revenue's decision to close that loophole in 1991 which is prompting life companies to take their money out again.

It is doubtful if all the £27bn which life assurance companies have in unit trusts will now flow into direct equities. This is partly because the tax benefits of such a switch apply only to relatively passively managed portions of the life fund; and partly because a wholesale abandonment of unit trusts could be costly in administrative terms. But as next year's tax computations get closer, the UTA's monthly figures can be expected to continue looking unhealthy.

Misys

The recent history of Misys says a lot about the growing problems of the UK computer services industry and even more about why the business is a minefield for acquisitive companies. Misys, one of a growing number of mini-conglomerates run by ex-Hanson personnel, came to the market in 1987 capitalised at £8m. It seemed destined to weave the Hanson magic in one of the country's most fragmented industries, where entrepreneurs often seem far more interested in big bytes than big bucks.

At first all seemed to go well. After a string of acquisitions, Misys' capitalisation had risen to £135m a year ago and its shares were selling on 20 times earnings. One year on and another £50m of acquisitions later, the group is valued at £54m and its shares are selling at 7.4 times earnings. Turnover has trebled, pre-tax profits have doubled and earnings per share are up just 3 per cent. Given that this was a company whose earnings had been growing at over 60 per cent per annum since coming to market and were supposed to grow by another 35 per cent this year, the market's disappointment is understandable. This year profits will be lucky not to fall.

The fast-growing computer services industry has been amongst the hardest hit by the squeeze on capital spending. While Misys has not suffered from the cost overruns which have bedevilled some competitors, it cannot escape from the sharp slowdown in business. Meanwhile, its depressed rating means that it can no longer afford the luxury of buying growth either.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	S	27	81
Algiers	S	33	93
Amsterdam	C	17	63
Athens	S	32	90
Bahrain	S	36	97
Bangkok	F	32	90
Barcelona	S	30	86
Beirut		–	–
Belfast	S	22	73
Belgrade	C	16	61
Berlin	R	17	64
Biarritz	F	31	88
Bombay	Dr	28	84
Bordeaux	S	32	90
Boulogne	F	22	72
Brussels	F	17	64
Budapest	S	25	77
Buenos Aires	F	12	55
Cairo	S	32	91
Cape Town	S	17	63
Caracas	C	27	82
Casablanca	C	23	73
Chicago	S	18	65
Cologne	C	17	63
Copenhagen	F	21	70
Corfu	S	28	84
Dallas	C	23	75
Dublin	S	21	70
Dubrovnik	F	27	82
Edinburgh	S	18	66
Faro	S	25	77
Florence	S	30	86
Frankfurt	S	21	70
Geneva	S	23	75
Gibraltar	[illegible]	29	84
Glasgow	S	22	72
Helsinki	F	20	68
Hong Kong	F	30	86
Innsbruck	S	25	77
Inverness	S	17	64
Islamabad	S	33	93
Istanbul	S	31	88
Jakarta	C	32	91
Jersey	S	25	77
Johannesburg	S	22	72
Lima	C	17	64
Lisbon	C	23	73
London	S	22	72
Los Angeles	C	20	68
Luxembourg	S	20	68
Madeira	S	25	77
Madrid	S	32	90
Majorca	S	31	88
Malaga	S	27	82
Malta	S	32	91
Manchester	S	23	75
Manila	R	25	77
Melbourne	F	12	55
Mexico City	C	23	75
Miami	S	27	81
Milan	F	25	79
Montreal	C	18	65
Moscow	R	16	[illegible]
Munich	S	22	72
Nairobi	C	20	68
Naples	S	30	86
Nassau	F	32	91
New Delhi	F	35	95
New York	S	23	75
Nice	S	27	81
Nicosia	S	28	84
Oporto	S	22	73
Oslo	F	23	75
Paris	S	22	[illegible]
Peking	C	26	79
Prague	F	20	68
Reykjavik	F	12	55
Rhodes	S	28	84
Rio de Janeiro	F	30	86
Rome	F	27	82
Salzburg	S	22	73
San Francisco	S	12	55
Seoul	C	[illegible]	[illegible]
Singapore	C	26	79
Stockholm	F	20	68
Strasbourg	S	23	75
Sydney	C	17	64
Taipei	F	36	97
Tangier	C	23	75
Tel Aviv	S	30	86
Tenerife	S	28	84
Tokyo	F	30	86
Toronto	S	17	63
Tunis	S	32	90
Valencia		–	–
Venice	S	26	79
Vienna	F	22	73
Warsaw	S	20	68
Washington	S	22	73
Zurich	S	22	73

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

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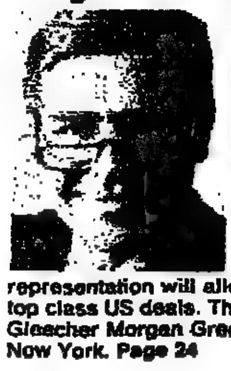
INSIDE

Du Pont hit by weak chemicals sector

Second-quarter earnings slipped 3 per cent at Du Pont, the largest US chemicals company, reflecting the weakness of the world chemicals sector. Earnings per share, however, improved to $1 02 from $1 last year, thanks to fewer shares outstanding in the latest quarter. Recently, Du Pont's rivals Dow Chemical and Union Carbide unveiled earnings down 50 per cent and 38 per cent respectively. Unlike Du Pont, they had large exposures to the volatile commodity chemicals business. Page 22

Morgan Grenfell in New York link

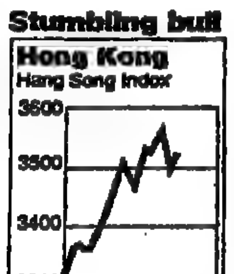


Morgan Grenfell, the merchant bank owned by Deutsche Bank, is teaming up with a New York firm, Gleacher & Co, to form a joint company specialising in international mergers and acquisitions, and corporate advisory services. John Craven (left), Morgan Grenfell's chief executive says better US representation will allow his bank to handle top class US deals. The joint venture, called Gleacher Morgan Grenfell, will be based in New York. Page 24

Junk portfolio sold

Columbia Savings & Loan, the California thrift which is insolvent because of $1bn in losses and market declines in the value of its junk bonds in recent months, yesterday agreed to sell its junk portfolio for $3bn to Gordon America L.P. The sale, subject to corporate and regulatory approvals, proves there are buyers available for high-yield bonds. This is crucial for other thrifts which have been ordered by the US Government to sell their high-yield holdings by 1994. Page 24

Stumbling bull



Margaret Thatcher has managed to dent the Hong Kong stock market's bull run with her decision to give a new job to Francis Maude, the minister with special responsibility for the colony. The local Hang Seng Index, which fell 64.02 points on Tuesday, came back by 24.67 points yesterday to 3,520.54, mainly because China's leaders were being nice to Mr Maude but also because Wall Street had begun to improve. Back page

Commerzbank cries foul

Walter Seipp, chief executive of Commerzbank, West Germany's third largest commercial bank, yesterday complained of "competitive distortions" in East Germany because of the introduction of western-style banking. Commerzbank's bigger rivals, Deutsche Bank and Dresdner Bank, which have both formed joint ventures with Deutsche Kreditbank, the commercial banking arm of the former state monopoly, had two weeks' extra notice concerning liquidity loans for East German companies, Mr Seipp claimed. Page 20

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)							
Rises				**Rises**			
Ind. Werke	394	+	10	Afrique Occ.	510	+	10
V.E.W.	253	+	13	Chargeurs	961	+	11
Falls				[illegible]	620	+	9
Deckel	225	–	9	Radiotech	594	+	12
Karstadt	735	–	6	**Falls**			
Metallgesell	630	–	5	Damez	744	–	14
Wella Prf.	768	–	12	Printemps	642	–	10
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Compaq Comp.	59⅛	+	1⅞	Kissei Pharm	5700	+	410
Du Pont	39⅞	+	1	Nippon Multi	1480	+	120
Honeywell	104⅝	+	1⅜	Riken Kold	2270	+	170
Falls				Shimachu	6130	+	450
Chevron	77⅞	–	⅞	Tokio Elect.	1250	+	100
Gen. Inst.	44¾	–	⅞	**Falls**			
Gerber Sc.	10¾	–	2½	Tokyo Cosmos	1100	–	60
PARIS (FFr)							

New York prices at 12.30.

LONDON (Pence)							
Rises				Ultramar	349	+	5
BAA	487	+	6	Water Pk Uts £	2293	+	35
Barclays	407	+	10	[illegible]	45	+	5
British Vita	214	+	6	**Falls**			
Enterprise Oil	887	+	11	BTR	[illegible]	–	16
Euro Disney	1010	+	25	Brit Aerospace	542	–	10
Hillsdown	230	+	8	Comm Union	516	–	8
Polly Peck	454	+	7	Hammerson A	702	–	11
Reuters	1063	+	18	Maybr Intl	414	–	11
Sema	536	+	10	Micro Focus	783	–	32
Standard Chart	436	+	7	RHM	335	–	11
Strong&Fisher	18	+	4	THORN EMI	718	–	7
TI Group	536	+	8				

Swiss bank opposes bid for Suchard

By William Dullforce in Geneva

BANK VONTOBEL, one of Switzerland's leading private banks, yesterday recommended Jacobs Suchard's public shareholders to reject a takeover bid worth SFr3.67bn ($2.64bn) from Philip Morris of the US.

Philip Morris needed a majority stake of 80 per cent in the Swiss chocolate and coffee group, to be able to take advantage of the opportunities for tax savings provided under US fiscal law, Bank Vontobel said.

But the deal with Mr Klaus Jacobs, Suchard's majority shareholder – and the subsequent transaction by which Kraft General Foods, Philip Morris's wholly-owned subsidiary, will acquire 100,000 disposable Suchard bearer shares – would leave the US group with an equity stake of 38.5 per cent and a voting stake of 61.5 per cent.

So it was "very probable" that, if Philip Morris's bid to the minority shareholders was not accepted, it would be forced to raise its offer, the Zurich-based bank said.

The bid was equivalent to a price-earnings ratio of 15 times estimated 1990 earnings. Bank Vontobel's analysts considered this was inadequate, especially when compared with other takeover prices in the foods sector.

Kraft paid SFr3.16bn for Colima, the holding company through which Mr Jacobs controlled the Swiss group. This corresponded to a purchase price of SFr3,645 per registered share or a 120 per cent premium over the price now being offered to the minority shareholders.

Through Colima, Kraft is now proposing to pay them SFr1,660 per registered share, SFr8,500 per bearer share and SFr758 per participation with extra payments for the warrants on the participation certificates.

Kraft's offer, worth SFr3.67bn, came into effect yesterday and is valid until midday on September 3.

The total price of SFr6.84bn represented a P/E ratio of 17.2 and could only be described as very low, Bank Vontobel said. The valuation did not sufficiently reflect the group's long-term positive outlook, its outstanding brand names and its strong market positions.

The reaction of US investors showed how cheap the price was from Philip Morris's point of view. Albeit in a slightly better market, the price of Philip Morris shares had risen 12 per cent since the announcement of its bid for Suchard, whereas, usually in the US, the stock market price of the bidding company falls somewhat.

Assessing public shareholders' risks in not accepting the offer, Bank Vontobel said that, should Philip Morris be satisfied with less than 80 per cent, shareholders would still benefit from the positive outlook for the new Suchard.

The increasingly unreal world of US real estate

Alan Friedman looks at a crisis in commercial property

ALVIN Dworman is one of the most discreet yet most influential movers and shakers in US commercial property.

His privately held company – Adco – controls $5.5bn of assets in property, banks and financial services around the US. It acts not only as a property developer, manager and investor, but also as a financier for US and foreign companies involved in the sector.

The views of Mr Dworman, a soft-spoken tycoon whose Manhattan skyscraper overlooks the Rockefeller Center and Fifth Avenue, are thus emblematic of the heavy hitters of American property: And Mr Dworman's views are not encouraging.

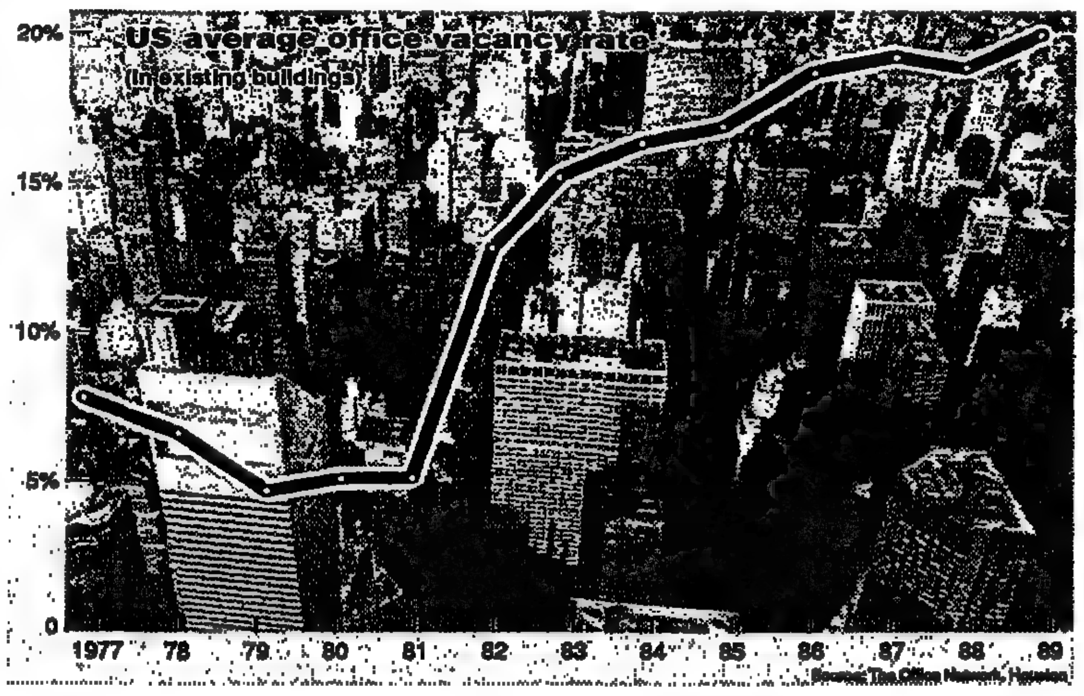
He takes out a pad of paper and draws a map of Manhattan. At the lower end of the rectangle he scrawls a large X. "Downtown is dead and getting worse. Financial institutions, real estate firms, insurance companies and such are a disaster. I think it's going to get worse and could take four to five years to recover."

Property agents' figures back Mr Dworman's picture. For example, prime Manhattan office space, which rented out at $40 per sq ft at the end of 1989, went for an average of just under $34 per sq ft last month. In Boston prime space took in about $39 per sq ft at the end of last year and is now valued at $35.

Looking at the broader national picture, Mr Dworman says that the property crisis which began earlier this year in New England "is now flowing right down the East Coast." He speaks of a few areas of the country where the commercial and residential property markets are still holding up – most notably in northern California – and then gives his overall verdict.

"I would say that if you think of US real estate as a commodity then the price is going to be down for the next two-and-a-half years. I think it will eventually come back because interest rates will go down due to the impending recession."

This grim perspective on the property crisis that is spreading across America is shared, at least in private, by some of the most senior bankers, lawyers and businessmen in the US. Comparisons are made between the current slump in property and the crunch that occurred in the mid-1970s. The consensus view is that this malaise will easily rival the problems of 15 years ago, with no early prospects for an upturn.



Source: The Office Network, Houston

Figures compiled by The Office Network, a Houston-based property research group, show that since 1981 average US vacancy rates in existing buildings have increased dramatically. After a brief decline in 1987, vacancies continued their sharp rise.

A recent survey of 400 US property executives by Ernst & Young revealed the shared expectation that the commercial market will remain weak for the next five years. This outlook has strong implications for the lending and investment patterns of the financial community.

That property woes will hit the banks is already obvious, whether one thinks of the savings and loan crisis or the sharp increases in second-quarter credit losses and non-performing loans announced this month by big institutions such as Citicorp and Chase Manhattan. The property crisis is becoming the most important problem for American banks in the 1990s just as Third World sovereign debt was during the past decade.

The majority of executives surveyed by Ernst & Young believe that available capital for property investment and development will continue to decline. Mr Mike Evans, director of Ernst & Young's property advisory service, says the building industry "has never experienced such a drastic reduction of capital."

Survey respondents said that overbuilding in recent years was the factor likely to have the most enduring impact on commercial property in the first half of the 1990s.

The only good news is that American property is now a vast and varied buyer's market. Rarely has there been such an opportune time for contrarians, bargain hunters and investors with cash to spare.

Distressed and restructured properties abound, as do the seized property holdings that are being auctioned off by the Resolution Trust Corporation (RTC), the federal agency that is trying to clean up the mess left behind by the savings and loan scandal. The auctions by RTC are a double-edged sword – they could further depress prices by placing more supply on a market already suffering from a glut, but will at the same time offer bargains to buyers.

The residential market is not in much better shape than the commercial sector. Ms Barbara Corcoran, one of New York's leading residential brokers, says there are currently 14,000 listings on the Manhattan market, against a normal average of about 9,000.

While the property slump is becoming a nationwide syndrome, not all parts of the US are suffering. The East Coast and the Southwest remain the hardest hit, but sections of the Midwest and of the Pacific Northwest are holding up.

The overall message from both bankers and commercial and residential property players is thus a mixture of gloom for those with substantial holdings and cheer for liquid investors willing to take a longer view view.

Some brokers and developers may say that prices are now near the cyclical low, but top bankers such as Mr Thomas Jones of Citibank are not even willing to assert that the market has bottomed out.

In addition, the implications of the shattered property market go beyond the sector. They affect not just banking, but also cause problems for other sectors such as the chemicals industry, which relies on housing as a key consumer along with the automotive sector.

As a barometer of the overall US economy, property clearly provides ammunition for the more pessimistic forecasters. But regardless of the depth or breadth of recession in various US manufacturing and service sectors, the consensus on property is that conditions are likely to get worse before they improve.

Additional research by Rivka Nachoma.

BA wins clearance for Sabena venture

By Paul Abrahams in London

BRITISH AIRWAYS, the leading UK carrier, yesterday received clearance from the UK Monopolies and Mergers Commission to take a 20 per cent stake in Sabena World Airlines, its joint venture with Sabena, the Belgian airline, and KLM Royal Dutch Airlines.

The Monopolies Commission's decision yesterday that it was *not against the public interest* for BA to make a £34m ($61.5m) investment in SWA came as no surprise. Mr Michael Bishop, chairman of British Midland Airways and one of the deal's most vociferous opponents, admitted last month that the Monopolies Commission was unlikely to oppose the joint venture because of the limited scope of the inquiry.

The terms of reference of the investigation were limited to the effects of the joint venture on traffic between the UK and Brussels Zaventem Airport. Officials had expressed concern that BA and Sabena together handle 70 per cent of the 1.25m passengers travelling between the two countries each year.

However, the Monopolies Commission decided the benefits to the consumer of the creation of a hub and spoke feeder operation at Brussels' Zaventem airport linking more than 75 European airports outweighed any possible reduction in competition.

The Monopolies Commission's past record of investigations into UK airline mergers has not been particularly aggressive. After BA's acquisition of its smaller rival British Caledonian in 1987, it was left to the European Commission to force BA to cede routes to other airlines.

Last month the European Commission sent the three airlines a formal statement of objection as well as a 30-page document which laid out its main points of concern about the deal. The points of concern are understood to have included:

- The effect on competition of BA's links with Sabena on the London Heathrow-Brussels route. This was the main focus of the Monopolies Commission report;
- The danger of Sabena dominating Brussels' Zaventem airport;
- Whether it is in the interests of competition and appropriate for BA and KLM to take a stake in SWA;
- The potential monopoly that KLM might enjoy on air travel in the Benelux region.

The airlines have until the end of the August to respond to the letter of objection.

BA rejects Air Jamaica deal, Page 20

$400m charge for job cuts gives Digital quarterly loss

By Louise Kehoe

DIGITAL Equipment reported its first ever quarterly loss yesterday, after taking a $400m charge to cover the costs of job cuts and consolidation of factories.

The company said it would eliminate 5,000 to 6,000 jobs through voluntary departures. Digital currently employs about 124,000 people world wide. It retains its "no-layoffs" policy.

For the fourth quarter, the company reported a loss of $256.7m or $2.11 per share after the restructuring charge. In the same period last year, Digital had net income of $313.2m or $2.51 per share. Quarterly operating revenues fell four per cent to $3.37bn from $3.49bn in the final quarter of fiscal 1989.

"Operating results for our fourth quarter and 1990 fiscal year reflect the continuing economic slowdown that affects both US and several other markets," said Mr John F. Smith, senior vice president of operations.

The fourth quarter results were far short of analysts' projections.

Digital, the world's second-largest computer manufacturer, has been under increasing pressure from investors to cut costs as its profit margins have slipped and revenues flattened over the past two years.

Year-end results, which incorporated a $150m third quarter charge for severance pay costs as well as the fourth quarter $400m charge, left Digital with net income of $74.4m or 59 cents per share, down from $1.07bn or $8.45 per share last year. Analysts had been projecting earnings per share of $7.53 for the year.

Total operating revenues for the year were $12.94bn, up 2 per cent from $12.74bn in the previous fiscal year.

"Increasing profit is the most important challenge the company faces," said Mr Smith. "We are not satisfied with our operating results and will continue focusing on revenue growth and reducing our cost structure."

The cuts announced yesterday appear to be a compromise between Mr Kenneth Olsen, Digital's founder and president, who has been reluctant to axe jobs, and Mr John Smith, the company's number two executive, who reportedly called for more extensive cuts.

Wall Street reacted positively to the announcement. Digital had "bitten the bullet," said one analyst. The stock opened up ⅛ at $75⅝ after closing on Tuesday at a six month low. At midday the stock price stood at $76⅝.

Aegis purchases Media Holdings

By David Churchill in London

AEGIS, the media planning and buying business, is strengthening its European position with the proposed acquisition of Media Holdings International, Scandinavia's largest media buying company.

The purchase – for an initial £9.3m ($16.8m) – is aimed at taking advantage of the imminent deregulation of Scandinavian television and gaining access to clients such as Electrolux and Volvo.

MHI had gross billings last year of £250m and has operations in Sweden, Norway, Denmark and Finland. Its pre-tax profit for the financial year ending December 31 was £2.6m.

Under the terms of the offer, Aegis is paying an initial £9.3m for Agda Holdings, the Swiss holding company of MHI. A further £4.5m may be payable in cash depending on performance over the three years to 31 December 1992.

The acquisition was announced yesterday at the same time as Aegis published its first set of interim financial results, for the six months ended June 30, since changing its name earlier this year from the WCRS group. Pre-tax profits were up 58 per cent to £34.6m on turnover of £764.67m.

This name change reflected the switch in emphasis in the group's activities from being a full-service advertising agency, seeking to compete world-wide with advertising giants such as the WPP Group or Saatchi and Saatchi, into a media planning and buying group.

This followed its acquisition of the French media buyer Carat last year. Media buying, the purchase of advertising space in publications and on television, is increasingly carried out by specialised agencies operating for advertisers or creative agencies.

Carat is Europe's largest such media buyer and the addition of MHI will give the company access to northern European markets. The company is also benefiting from the expansion of television in the UK, Spain, and West Germany – either broadcast or by cable or satellite – as well as new print media.

Mr Peter Scott, Aegis's chairman and chief executive, said yesterday that the strength of the company was the spread of its operations across Europe. Although the UK market for advertising was looking sluggish, he said, most continental European economies were growing at a faster rate than in the UK.

Details, Page 25

Berisford abandons property talks

By Clare Pearson in London

BERISFORD International, the British Sugar owner which has put all its assets up for sale, yesterday said it had abandoned negotiations to sell its UK property arm to management.

The plans have been terminated after more than six months of talks with Mr Cyril Dennis, chief executive of Berisford Property UK who also owns 20 per cent of its shares.

Mr John Sclater, Berisford's chairman, nevertheless claimed yesterday that Berisford was making "good progress with its restructuring programme." He said it had completed the sale of the assets of NGI, a New York jewellery manufacturer, for about $29m (£16m).

Berisford said earlier this month that it would consider the sale of all parts of its business, in the face of financial problems triggered by heavy borrowings and large provisions against an ill-fated venture into property in New York.

Disposal of the UK properties would, however, make little impression on Berisford's balance sheet. Along with results for the six months to end-March, the company this month disclosed total net debt of £1.25bn.

Berisford Property UK is thought to have accounted for between £150m and £200m of the borrowings.

Yesterday, Berisford was presenting the decision to end the discussions as an amicable change of plan, rather than arising from a broad disagreement over terms.

It said the management team had failed to meet certain "technical" objectives asked of it. Such objectives included insurance relating to the financing.

Berisford said it was now "actively pursuing, with the assistance of the chief executive . . . and the management team, other opportunities in relation to this business." It claimed that a number of other parties had expressed interest in all or some of the UK properties.

Berisford made a £12.5m provision against UK properties in its half-yearly results, reporting a divisional loss after interest of £10.8m, from a profit of £3.3m in the same period last year.

Numbering about 40, the properties span the Midlands, East Anglia, Edinburgh and London. Earlier this year, the former Unigate headquarters in Western Avenue, west London, was acquired.

Berisford is retaining the name of the New York jewellery business NGI which it acquired in 1985. This is in order to pursue a legal action in which the company has been embroiled, relating to a dispute over a quantity of gold.

Associated British Foods, the milling and baking group, said on July 6 it had notified the Office of Fair Trading that it was considering an offer for British Sugar, the dominant part of Berisford. However, ABF has had no talks with Berisford since it made that announcement.

Berisford omitted its interim dividend and reported a loss, after extraordinary provisions and write-offs, of £144.5m for the interim period.

Fiat Group expects flat net profits

FIAT GROUP, the Italian vehicle maker and Italy's largest private-sector industrial group, expects flat 1990 net profits and says its gross operating profit fell by about 8 per cent in the first five months of the year, to L2,186bn (US$1.83bn) from L2,384bn in the comparable period of 1989, Reuter reports.

Fiat told analysts in Italy this week it forecast a full-year consolidated net profit basically in line with 1989's L3,310bn.

Fiat's share price has fallen since Mr Giovanni Agnelli, chairman told shareholders at the annual meeting in June that 1990 profit growth would be slower than in previous years. Fiat ordinary shares dropped 1.6 per cent on Tuesday and slipped a further L15 on Wednesday to L8,740.

Fiat expects to make a special provision of L300bn this year for potential losses from its operations in Brazil.

Fiat officials told analysts that turnover in the first five months rose by 13.5 per cent to L25,172bn, from L22,163bn in the same period of 1989.

Fiat still expects to reach its 1990 turnover target of about L63,000bn, up from L52,020bn.

BA rejects Air Jamaica deal

By Canute James in Kingston

BRITISH AIRWAYS has turned down an offer to buy into financially troubled Air Jamaica, the island's state-owned carrier.

Company and government officials said BA had been offered as much as a 35 per stake in Air Jamaica, at a cost of about US$54m, but that the British airline said it could not entertain the offer.

The Jamaican carrier has been seeking a foreign partner to help stabilise its operations. Air Canada is said to have been approached also, but officials said they could not comment on these negotiations.

Mr Robert Pickersgill, Jamaica's transport minister, said the British Airways reaction to the offer "has not been good up to this time."

The Jamaican airline, which flies routes linking the island to the US and Canada with a fleet of four Airbus A300s and four Boeing 727s, has been losing money and has had to depend on government financial support.

It recorded a US$19m loss last year, bringing accumulated losses to US$38m.

The Government, which has provided support this year of about US$14m, is unlikely to contribute any more as it is aiming to cut its fiscal deficit to meet conditions agreed with the IMF for a current credit package.

However, Mr Mike Fennel, Air Jamaica's president, said the company should record an operating profit of J$56m (US$8m) this year.

Success for Akbank issue

By Jim Bodgener in Ankara

AKBANK, Turkey's leading private retail bank, was heading towards a sell-out yesterday of the TL600bn ($224m) initial public offering of 5 per cent of its shares.

As a result, the institution's listing today on the Istanbul stock exchange will give it the largest capitalisation of any publicly-quoted Turkish bank.

"This is the largest share issue to the Turkish public ever made in three days," said Mr Erol Sabanci, Akbank's deputy chairman and managing director, yesterday.

From Monday until it closed yesterday, around 40,000 Turks bought four-fifths of the issue at TL12,000 per share over the counters of Akbank's 619 branches.

An agreement to underwrite and to market overseas the remaining one-fifth of the shares on offer – worth about $46m was signed in Paris yesterday morning by a group of foreign institutions led by Banque Indosuez and including Morgan Stanley, Salomon Brothers, and Nomura Securities. The shares will be sold overseas at the equivalent of the Turkish price.

Accor director for Wagons-Lits

The board of Wagons-Lits, the Belgian travel and tourism group, has elected Mr Robert Zoladz, development director of the French hotel group Accor, as one of three joint managing directors, Reuter reports.

Mr Zoladz will head Wagons-Lits along with Mr Pierre Bellon, the chairman of French catering group Sodexho and Mr Francois Boyaux, the chairman of Wagons-Lits' 78 per cent-owned hotel unit PLM.

Mr Zoladz's nomination reflects a strengthening of Accor's role in the group, a source close to Wagons-Lits said.

NEWS IN BRIEF

Hachette to keep US magazine

HACHETTE Publications, US unit of the French publishing group, will retain its Woman's Day magazine because the auction to sell the magazine attracted bids which did not reflect its true worth, Agencies report.

Hachette said it was not in its best interest nor in the magazine's to sell the publication. Instead it said it would invest in the magazine to maintain its market leadership in the 1990s.

■ Profits at Créit Suisse, the Swiss bank, were lower in the first half of 1990 than a year earlier despite a good second quarter, parent company CS Holding said.

After a poor first quarter, performance improved in the second three-months, but did not reach last year's level. Créit Suisse gave no profit figures, but said its balance sheet for June 30 rose 0.6 per cent from March 31 to SFr124.4bn. It made a net profit in 1989 of SFr783m ($565m).

■ Ja/Mont, the tissue and household paper joint venture owned by Italy's Gruppo Ferruzzi, Finland's Nokia and James River of the US, is acquiring two Greek paper companies.

Ferruzzi said the companies are Cartellas and Achaia, both owned by the Panopoulos family. No financial details were provided, but the two companies hold between 15 and 20 per cent of the Greek household paper market and have combined turnover of L52bn.

■ Wella, the West German haircare products group, said worldwide group pre-tax profit rose 6.4 per cent in the first half of 1990 from a year earlier on a sales gain of 5.7 per cent.

The company said group sales would have been even higher if not for the negative impact of the strong Deutsche mark against other currencies. Parent-company earnings gained by "more than 7 per cent" on a first half sales rise of about 8 per cent. No figures were given for 1990. For the first half of 1989, Wella had group pretax profit of DM76.4m on worldwide sales of DM1.1bn.

Ecco chases top slot in world's temps league

George Graham on the leading French agency

French employment agencies have had a good run over the last few years, with a rapidly growing domestic market providing the base for their expansion.

Ecco, the leading French agency and number three in the world behind Adia and Manpower, has been among the first to take advantage of this growth. Group profits increased by 26 per cent last year to FFr312m ($57.1m), on sales 29 per cent higher at FFr9.92bn.

Turnover at Ecco TT, which includes all its European temporary work businesses and accounts for three quarters of the group's activity, doubled between 1987 and 1989 to FFr7.54bn, while its profits increased two and a half times to FFr257.6m.

This year, Mr Philippe Foriel-Destezet, Ecco's 54-year old chairman, sees more modest growth of around 10 per cent. "The deceleration began a year ago, but it is a soft landing," he says.

But this comparative slowdown has not quenched Mr Foriel-Destezet's ambitions to turn Ecco, which he founded 25 years ago, into the European leader in the temporary employment business, as well as to diversify its activities to cushion its sensitivity to economic cycles.

His aim is to reach a balance between Ecco's French and foreign temp agency activities, an effort which has already begun with the opening of offices in Europe, Asia and North America but which he now plans to accelerate through acquisitions.

Last month, Ecco announced four small North American acquisitions: Westemp, Westfield and the temp secretarial division of Staff Builders Personnel Services on the US East Coast, and Linda Kaye in Canada.

"We give ourselves one to three years to reach a turnover of between $300m and $500m in North America. With our new acquisitions we reach $100m, so we have to complete our set-up with a significant deal, of the order of $300m," Mr Foriel-Destezet says.

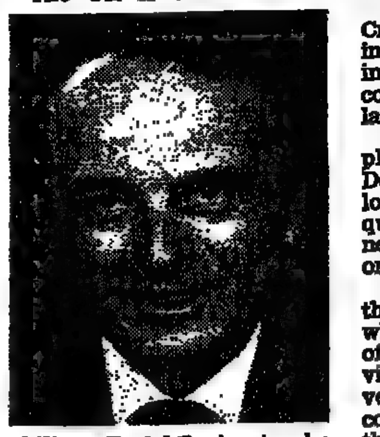
"In other countries we are also looking for acquisitions; if we don't make any, we won't reach our objective of doubling sales in five to eight years," he adds.

Ecco has already built up a presence in South-east Asia and is hopeful of breaking through in Japan, but for the moment the priority is Europe.

Mr Foriel-Destezet says Germany is still difficult because of the laws on temporary employment, but his group will one day be obliged to try its hand; the Italian market, on the other hand, could be on the point of exploding.

"We have a name destined for Italy, and a small company there waiting for the day," he says.

The UK is also difficult,



Philippe Foriel-Destezet, who aims to turn Ecco into the European leader in the temporary employment business

because employment agencies are more subject to cyclical economic downturns than elsewhere in Europe, but it has a high rate of temporary employment and the temp agency market is highly fragmented.

Besides developing Ecco's main temporary employment business, however, Mr Foriel-Destezet wants to build up its other sectors to represent around a third of its activity – even though in good economic conditions, such as now, investors always complain that Ecco should be 100 per cent employment.

The principal diversification area is security services, where Ecco's subsidiary SPS, bought in 1981, is French market leader.

Security made FFr30m profit its last year on sales of FFr1.52bn, and has recently been expanded with the acquisition last year of APS in New York and of two telesurveillance companies in Bordeaux and Besançon.

Cleaning services are now expected to grow rapidly, also through acquisitions, Mr Foriel-Destezet says.

Ecco's banking and financial services subsidiary, Crédit Moderne, has always been more criticised by financial analysts as too far away from the group's main line of activity to represent any great strategic interest.

Mr Foriel-Destezet defends Crédit Moderne, however, saying that it has integrated well into the rest of the group and contributed FFr37m of profits last year.

"Crédit Moderne has its place in our diversification. Does it have a place in the very long term? You can ask the question. We will probably need an external partner for it one day or another," he says.

External partners are something that Mr Foriel-Destezet, who controls over 50 per cent of Ecco's stock, has always viewed with caution. Ecco has very low net debt, and the company has never appealed to the stock market for fresh capital since its flotation. Can it preserve this tradition while embarking on an ambitious acquisition programme?

"It would be easy to raise money through Ecco SA but with the risk of losing control. That is a risk which most groups run one day or another, but I am trying not to run it too soon," Mr Foriel-Destezet says.

The consequence is that Mr Foriel-Destezet, like other French owner managers such as Cap Gemini Sogeti's Mr Serge Kampf, is examining a project for a new tier in the Ecco holding company structure, allowing him to bring in new shareholders without losing majority control.

If the plan is completed, Ecco could raise up to FFr2bn in two phases to help fund its acquisitions.

INTERNATIONAL COMPANIES AND FINANCE

Elders Resources' bid for Oakbridge gains backing

By Kevin Brown in Sydney

A CONTESTED takeover bid by an Australian-Japanese consortium for Oakbridge, an Australian coal mining company, received a setback yesterday when independent directors of Oakbridge recommended a rival bid by Elders Resources NZFP, an offshoot of the Melbourne-based Elders IXL.

The independent directors said the consortium's bid of 88 cents per share was inadequate because shareholders would have to pay their own brokerage and stamp duty, and because it did not extend to preference and partly-paid shares.

The consortium is led by McIlwraith McEacharn, a 46 per cent subsidiary of TNT, the Australian transport conglomerate, backed by Nippon Oil Australia and Toyo Menka Kaisha, a Japanese trading house. The bid values Oakbridge at just under A$300m (US$235m).

The independent directors said an earlier bid by Elders Resources would provide a return of 90 cents a share, free of brokerage and stamp duty, and would be extended to holders of all other Oakbridge securities.

Elders Resources has conditional acceptances for more than 85 per cent of Oakbridge shares, and says it is confident of reaching 90 per cent, at which level it can acquire outstanding shares compulsorily.

The McIlwraith consortium has a 2.7 per cent stake in Oakbridge, and says it believes Elders Resources will be unable to reach the 90 per cent threshold.

Elders Resources was forced to lift its offer from 86 cents per share after the consortium unexpectedly entered the bidding earlier this week.

Elders Resources has said it intends to integrate Oakbridge into its existing operations. However, Elders IXL has agreed to sell a majority stake in Elders Resources to Carter Holt Harvey, the New Zealand forest products group, which has said it will dispose of Elders' non-forest products businesses.

FAI sells its holding in Ariadne

By Kevin Brown

FAI INSURANCES yesterday sold its 19.7 per cent stake in Ariadne Australia, the former vehicle for Mr Bruce Judge's entrepreneurial activities, in a cash and property deal valued at A$17.3m (US$13.6m).

The sale ends a two-year search for a buyer by FAI, headed by Mr Rodney Adler, and follows the breakdown in February of a complex disposal arrangement involving Essington International and Ampersand International.

The buyers were two associated property companies – Stirling Properties and Group Property Services – which were seeking to reduce their exposure to theweakened property market.

As part of the deal, control of a development of 41 luxury homes in the prestige Sydney suburb of Neutral Bay has been passed to FAI, which plans to rent the properties until the market improves, and then sell them.

Mr Adler said the sale was equivalent to 11.9 cents per Ariadne share, compared to a market price of 7 cents, representing a premium of A$7.1m on the book value of the stake.

Stirling said the deal had substantially reduced its exposure to the property sector, and its debt in relation to the Neutral Bay project. The companies also said they had acquired the largest single shareholding in Ariadne at a price equal to half the last audited net asset backing per share.

The sale of the FAI stake to Essington was thwarted by Sir Ron Brierley's Brierley Investments, which holds 14 per cent of Ariadne and controls the board. Essington, which holds 17.5 per cent of Ariadne, would have gained control if the sale had gone through.

Brierley Investments is seeking to liquidate the assets of Ariadne, principally property holdings in Queensland.

Steep falls for Taiwan's state groups

By Peter Wickenden in Taipei

ALL OF Taiwan's 10 main state-run industries saw sharp drops in pre-tax profits last year, affected by public-sector wage increases, steep rises in certain commodity taxes and in the cost of raw materials.

The Commission of National Corporations said increases in the price of imported crude oil but lower domestic prices for oil and gas cut the profits of Chinese Petroleum Corp by 49 per cent to NT$32.1bn (US$1.18bn). China Petrochemical Development Corp, partially owned by CPC, sufferred a 77 per cent fall in profits to NT$340m.

Profits at China Steel dropped by 18 per cent to NT$15.2bn, and at Taiwan Power Company's were down 14 per cent to NT$26.1bn. Sales of shares to the public by China Steel and Taipower were planned for this year but have been postponed.

China Shipbuilding Corp, which ranked third in the world last year in terms of tonnage built, saw its losses increase 17 per cent to NT$1.98bn.

Taiwan Fertiliser, Taiwan Salt Works and Taiwan Sugar – all cash-cows for provincial governments – saw their profits fall by 72 per cent, 96 per cent and 41 per cent respectively. A commission official said that government policy in principle is to privatise most of Taiwan's 27 state-run enterprises.

Kubota rejects robbery charge

Michiyo Nakamoto in Tokyo looks at the background to a sensitive American lawsuit

Kubota, Japan's leading maker of agricultural machinery, has responded angrily to claims by two Silicon Valley entrepreneurs that the Japanese company conspired to transfer US computer technology to its wholly-owned US subsidiary.

In a US lawsuit launched this month Mr Allen Michels and Mr Matthew Sanders, directors of Stardent, a US company, allege Kubota was robbing Stardent of valuable computer technology. The claims come at a sensitive time when calls have been mounting for greater protection of US technology.

According to Mr Masahiro Yoshida, managing director of Kubota's computer business operations: "They are saying that a Japanese company is stealing US technology and we cannot accept this, both for our own reputation and for the sake of the relationship between Japan and the US."

If there were any grounds for believing that Kubota was transferring Stardent technology to its subsidiary, the allegation would have come from Stardent itself, rather than the two individuals, he said.

Mr Michels and Mr Sanders were co-founders of Ardent, a Silicon Valley supercomputer graphics company in which Kubota built up a 44 per cent stake over the years.

The two are claiming that Kubota used its financial influence over Ardent to bring about its merger with Stellar, a competitor on the US East Coast, to form Stardent, and that it was now transferring technology it obtained through the merger to Kubota Pacific Computer, a subsidiary which it established recently in California. Kubota has a 22 per cent stake in Stardent.

Kubota draws a rather different picture of the birth of Stardent and its subsequent history. While the two Americans allege that Kubota forced the merger, Kubota claims it left the decision up to the boards of the two companies. Both Mr Michels and Mr Sanders favoured the merger from the start, Kubota claims.

Kubota had no intention of transferring technology to its US subsidiary, Mr Yoshida said. Kubota had planned to establish Kubota Pacific Computer in California as an assembly plant. It agreed to incorporate Stardent's R&D on the West Coast as part of its subsidiary only when requested to do so by Stardent itself.

While both sides were initially enthusiastic about the merger, a rift developed over who should head the new company. In the end, the boards of the two companies elected Mr John William Poduska, the founder of Stellar, as president.

Although Mr Michels and Mr Sanders have remained on the Stardent board, their involvement gradually declined, Kubota officials say. While in the beginning Stardent's operations were split between the West and the East, the impracticality of the set-up led Mr Poduska gradually to consolidate business on the East Coast.

This met a stumbling block, however, when it came to bringing former Ardent R&D staff to the East. The company's present line of products as well as its next line were both developed by Ardent personnel, most of whom were unwilling to move. Without them, however, Stardent would not be able to offer customer support for these products. Faced with this dilemma, it asked Kubota to incorporate its western division's R&D operations into its subsidiary.

Kubota claims that it was approached by Mr Michels and Mr Sanders with offers that they quit the company without bringing any charges in return for $3.5m each in consulting fees.

According to Stardent, a subcommittee of outside directors set up by the Stardent board has found the claims by Mr Michels and Mr Sanders to be "without merit." The Stardent board also announced it would terminate the employment of the two who had remained as employees and officers of the company.

Mr Yoshida expressed regret at the difficulty. "The company may not have been as successful as we originally planned, but we thought we had been working hard and co-operatively," he said. If Kubota's aim from the start had been to obtain US computer technology, it would have been able to acquire easily a US computer company comparable to Stardent at a lower cost than what it spent on the former Ardent.

Kubota, which has just announced an expansion in an area closer to its traditional activities by taking a 5.4 per cent stake in Cummins Engine, has also been actively diversifying into more high-technology businesses.

Although it has acquired minority stakes in eight US technology companies including Mips Computer Systems, a highly successful microprocessor company, Kubota has little experience outside making agricultural equipment and sewerage pipes. Its foray into the entrepreneurial Silicon Valley led one Tokyo analyst to comment: "Kubota has charged ahead into an industry it knows very little about. It is bound to fall into one or two pits along the way."

Mr Yoshida said that since the lawsuit was being brought by two individuals, rather than any US company with which it had business relations, Kubota saw no need to reassess its plans for its computer business.

Wing Tai's deals give it a stake in EC market

By Joyce Quek in Singapore

WING TAI Holdings (WTH), a Singapore garment manufacturer and property developer with a turnover of S$194m (US$107m), may not be a household name in the West but its clientele in the rag trade is.

Established designers and chain stores such as Liz Claiborne, Jordache, Banana Republic, Esprit and Macy's retail its garments under their labels.

Two recent deals have brought Wing Tai itself some attention, however. This month it paid £8.1m (US$14.8m) for a 29.6 per cent stake in Campari International, a British wholesaler and distributor of leisure and sportswear.

That followed the £27.5m takeover at the end of last year of Polly Peck Far East, a Hong Kong-listed garment producer, from the UK's Polly Peck International. The unit, bought in conjunction with Sun Hung Kai Properties of Hong Kong, has been renamed United Success International (USI).

Mr Cheng Wai Keung, managing director, along with several brothers came from Hong Kong in 1963 to set up a garment factory in Singapore. WTH is now the largest garment manufacturer in the island republic, a dominant role also enjoyed in Malaysia by Dragon & Phoenix, its listed associate there.

The Wing Tai operation in Hong Kong – run by Dr Edgar Cheng, a son-in-law of Sir Y.K. Pao, the shipping magnate – has since 1988 been separate, although the two groups co-operate.

In USI and Campari, WTH bought into companies with established networks in the EC ahead of the 1992 single market, and with their own strategic alliances elsewhere.

Mr Cheng says: "In Campari's case, they have Far East sourcing which is a successful strategy. The fact that WTH is a major manufacturer in the East will help them with up-to-date information. As a wholesaler/distributor, Campari's market information is critical to USI in its exports to the UK and (continental) Europe."

He added that WTH was interested in acquiring a company in the EC like Campari but dealing in casualwear, and in a US company with a distribution network.

The heavy reliance on shipments to the US, which comprise 90 per cent of WTH's Singapore garment exports, had led the group into different activities and other regions in an effort to diversify its earnings sources.

Dr Edgar Cheng, chairman, says: "We are facing increased competition in the EC markets. Italian manufacturers have restructured themselves and are presently the dominant suppliers in the upper medium-priced as well as the haute couture market.

"In the US, acquisitions and leveraged buy-outs have resulted in a much leaner apparel industry, whereby managements are streamlining their operations by being more selective in their sourcing of products, mainly from well-established manufacturers."

Locally, WTH's problems include export quotas and higher levies on imported workers. To counter these it is seeking to increase productivity while adding value to export products through more advanced technology using computer-aided design and manufacturing equipment. It is also setting up subsidiaries to provide supporting materials and services.

Income from property investment and development, with some properties picked up during the mid-1980s recession, accounts for 75 per cent of the group's latest annual pre-tax profits of S$40.2m before accounting for associates.

Although Mr Cheng will not comment, analysts believe that WTH may restructure to allow separate listings for its two core activities. Should that materialise, Morgan Grenfell Asia Securities reckons that, with WTH's market capitalisation of some S$400m, the garment division would be worth upwards of $180m against $220m for property.

INTERNATIONAL COMPANIES AND FINANCE

Du Pont's earnings hit by chemical sector weakness

By Karen Zagor in New York

DU PONT, the largest US chemicals company, yesterday reported modestly lower second-quarter earnings, reflecting the weakness of the world chemicals sector.

For the three months ended June 30, Du Pont's net income slipped 3 per cent to $694m from $714m a year ago. Earnings per share improved to $1.02 in 1990 from $1 last year, thanks to fewer shares outstanding in the latest quarter. Sales rose 4 per cent from $9.28bn to $9.65bn.

Du Pont's net income for the first six months fell 10 per cent from $1.45bn to $1.31bn, while earnings per share were off 5p per cent from $2.03 to $1.92. Sales in the 1990 first half grew 6 per cent to $19.05bn from $17.95bn a year ago.

The Du Pont figures come in the wake of a 50 per cent decline in earnings at Dow Chemical and a 38 per cent drop at Union Carbide which, unlike Dupont, have large exposures to the volatile commodity chemical business.

Mr Edgar Wollard, chairman, said: "Our performance overall was encouraging, considering the continued weakness in the US economy. We expect this weakness to persist in the near term, so we continue to emphasise cost improvement programmes as a means to improve profitability."

Shares in Du Pont gained $⅞ to $39⅞ at mid-day yesterday on Wall Street.

Earnings in both the petroleum and coal divisions improved in the quarter. Petroleum profits rose 6 per cent to $166m, excluding one-time items in the 1989 quarter, while profits from Du Pont's coal business grew 10 per cent to $53m. The petroleum business results were helped by higher refined product margins which were somewhat offset by lower crude oil prices. In Dupont's coal business, last year's results were hurt by a strike.

Profits in the polymers division fell 6 per cent to $133m in the quarter, which the company attributed to restructuring costs. These were only partly offset by improved earnings in Europe and strength in the automotive refinish market. Sales improved more than 8 per cent to $1.53bn.

Dupont's industrial products business saw profits drop 15 per cent to $135m in the quarter on sales which slid 1 per cent to $929m, reflecting lower sales of chlorofluorocarbons (CFCs) and increased spending on developing alternatives.

Avon strong in second quarter

By Karen Zagor

AVON PRODUCTS, the world's biggest manufacturer of cosmetics and toiletries which has deflected a series of takeover advances in the past 15 months, yesterday reported strong growth in second-quarter earnings, in line with analysts' expectations.

Net income for the three months ended June 30 grew 20 per cent to $47.5m, or 65 cents a share on a fully-diluted basis, from $39.5m or 54 cents a year ago. Sales in the quarter improved 2 per cent to $793.3m from $777.7m.

For the first half of 1990, Avon's net income jumped 37 per cent to $62.7m, or 79 cents a share on a primary basis, from $45.7m or 51 cents a year earlier. Sales rose 1 per cent to $1.5bn from $1.48bn last year.

Avon, which established a special committee to "consider alternatives to maximise shareholder value" to avoid a proxy fight with Chartwell Associates, an investment partnership between the Getty and Fisher families, whittled its debt to $645m at the end of the second quarter from $1.09bn a year earlier and $838m at the end of 1989.

"Our second-quarter strength reflects continuing profit improvement in US operations and a continued reduction in interest expense," said Mr James Preston, Avon's chairman and chief executive.

Pre-tax profits from the company's US operations grew 29 per cent in the 1990 quarter on sales which grew 2 per cent. Mr Preston said sales growth from Avon's US division, which was weak in the second half of last year, is expected to continue through the remainder of 1990.

Pre-tax profits from Avon International fell 5 per cent in the three months, although sales advanced 10 per cent.

Although Avon is no longer "in play" as a takeover candidate, Chartwell recently raised its Avon stake to just 0.2 per cent below the 20 per cent level which would trigger the company's shareholder rights "poison pill" plan.

Honeywell to spin off defence divisions

HONEYWELL, the US controls and electronics group, is to spin off its defence and marine systems divisions through a tax-free distribution of stock to its shareholders, writes Roderick Oram.

The Minneapolis-based company said this spring that it was considering such a move after failing to attract a satisfactory bid for the businesses because "the environment for defence properties had changed" – a reference to sharp Pentagon budget cuts.

Shareholders will receive one share in the new company, Alliant Techsystems, for each four Honeywell shares they own. Honeywell expects to give final approval of the spin-off late this quarter.

The businesses earned $53.8m on sales of $1.1bn last year. Its president and chief executive will be Mr Toby Warson, formerly head of Honeywell's UK operations. Its products will include tactical munitions, torpedoes, electronics systems, sonar, security and other electronic devices.

BT facing difficulties with sale of Mitel stake

By Bernard Simon in Toronto

BRITISH Telecom is making slow progress in efforts to sell its 51 per cent interest in Mitel, the troubled Canadian telephone equipment maker.

Announcing a first-quarter loss, Mitel said that while it was having talks with a number of prospective suitors, BT's disengagement was likely to take longer than anticipated when the British company announced in January it was reviewing its shareholding.

Mr John Jarvis, Mitel president, said BT had aimed to complete the sale within three months. He now hopes that Mitel's future will be clarified before the end of this year.

BT bought its stake in Mitel in 1986 for C$322m (US$278m). It is likely to take a substantial loss when it sells its interest. Mitel shares were trading on the Toronto Stock Exchange at C$2.45 yesterday, less than one-third the C$8-per-share paid by BT.

Mitel lost C$3.1m, or five cents a common share, in the three months to June 29, compared to earnings of C$4.2m, or 4 cents a share, a year earlier. First-quarter sales dropped 2 per cent to C$100.2m.

The poor results were due largely to an 8 per cent – or C$4m – fall in sales of office switchboards outside North America, the first such drop in several years. Mr Jarvis said he was hopeful that "this is a short-term problem and that we will see revenue growth in these markets as we move through the fiscal year."

Equipment sales in the US were virtually identical to the previous year after three years of steady declines.

The semiconductor business posted a stronger performance, with sales jumping by 31 per cent to $13.4m.

The damage caused by uncertainty over Mitel's future is reflected in legal proceedings started by the company against AT&T over a letter sent by the US telephone giant to Mitel customers. Mr Jarvis said that the AT&T letter "casts aspersions on us and our products and relates to our ongoing viability."

Korean car invasion breaks down

Bernard Simon looks at Hyundai's falling sales in North America

The spanking new Bromont assembly line east of Montreal is one of many North American car plants operating far below capacity.

What makes Bromont unusual is that it belongs not to any of Detroit's troubled "Big Three", but to one of the Asian manufacturers whose "transplant" operations are supposedly running away with the US and Canadian car market.

Bromont tells the story of success which has turned to disaster for South Korea's Hyundai Motor Corp. Conceived after Hyundai's subcompact Pony raced from a standing start to become Canada's best-selling foreign car in less than two years, the plant is now operating at less than 40 per cent of its annual 100,000-unit capacity.

The latest blow came earlier this week when Chrysler decided to back away from a deal to buy 30,000 Bromont-made Hyundai Sonatas for the US market next year. Chrysler, which was expected to market the medium-sized cars as Eagle Olympias, has ascribed its change of mind to the weak car market and its wish for a "more highly differentiated version of the successor to the present Hyundai Sonata."

The Sonata setback comes on top of a deep slump in Hyundai sales both in the US and Canada. The days in 1985 when Hyundai's two early models, the Pony and the larger Stellar, commanded almost 10 per cent of the total Canadian car market are a distant memory. Hyundai sold only 11,600 cars in Canada in the first six months of this year, giving it a market share of less than 2.5 per cent.

HYUNDAI SALES (Units)

	US	Canada
1990 (Jan-June)	69,873	11,600
1989 (Full year)	183,261	26,696
1989 (Jan-June)	96,290	13,735
1988	264,282	31,013
1987	263,610	50,646
1986	168,882	70,024
1985	-	79,072
1984	-	25,123
1983	-	19

Source: Ward's Automotive Reports

In the US, Hyundai's sales plummeted by 29 per cent in the first half of 1990 from a year earlier, leaving it with a paltry 1.5 per cent market share. Its sales there are now running at little more than half their 1988 peak.

Besides the general weakening of the car market over the past year, buyers' excitement at the low price tag on Hyundai cars has given way to disappointment at their quality. The Stellar – still sold only in Canada – is under-powered, and complaints have poured in about the imported Excel subcompact, the mainstay of Hyundai's US presence. Hyundai trade-in and resale prices have plunged.

One inevitable result has been dissatisfaction among dealers, many of whom had to make substantial investments in land and facilities when the Korean company set up its North American distribution system in the mid-1980s.

Hyundai has been forced to soften its policy of barring dealers from carrying other makes. According to Mr Thomas Webb, senior analyst at the US National Automobile Dealers Association, many dealers with more than one outlet have moved their Hyundai showrooms to the less desirable locations. The number of dealers in Canada has fallen from 200 in 1985 to 155.

Despite the problems, the Koreans insist they have not given up on North America. "We're facing a little bit of difficulty, but we hope we will improve our sales performance," says Mr Willy Lee, assistant to the president of Hyundai Canada.

Mr Chris Cedergren, analyst at California-based consultancy J.D. Power & Associates, predicts that Hyundai "will be able to resurrect its position in the longer term. They are a very committed manufacturer, and they're willing to back that commitment with lots of money."

In an effort to restore customer confidence, greater back-up support is given for existing models: Sonata buyers in Canada now get free check-ups for three years or 60,000km. Hyundai says it is also giving a liberal interpretation to warranties on its Stellar models. Advertising campaigns are being revamped to stress quality as well as price.

The dealer network is once again being expanded. Hyundai now has about 340 dealers in the US, compared to 280 at the beginning of 1989. It plans to more than double the number to 750 by late 1992, especially by extending its reach into smaller communities.

Several new models are in the pipeline. The first shipload of the stylish Scoupe sports model is already on its way from Korea, and will be in North America dealer showrooms within the next few weeks. A larger four-door model, known for the time being as the J-Car, is due to be introduced in South Korea this autumn, and will be shipped to North America early next year.

No decision has yet been made however, on the fate of the under-used Bromont assembly line. The C$200m (US$128m) plant currently assembles only the mid-sized Sonata. A nearby stamping factory, supplying Sonata components, is due to start production in October or November.

One possibility is thus to earmark another model for Bromont. One rumour is that the Quebec plant will be retooled to produce the currently-imported Excels. On another front, Mr Cedergren says that Hyundai has had preliminary talks with Mitsubishi and Chrysler about assembling a Mitsubishi-designed van there, and marketing it through all three companies' distribution systems.

Bromont may also be used to supply some offshore markets. It exported 1,500 cars to Taiwan last year. On the other hand, the company already has spare capacity at some of its Korean plants.

Before the deal with Chrysler fell through, Hyundai set a 1991 production target for Bromont of 51,000 vehicles, just over half its capacity. Mr Lee predicts gingerly that, whatever is decided on, "we may be close to that level."

Chrysler announces Canada plant closure

CHRYSLER, the third largest US automobile manufacturer, yesterday announced that it would be closing one of its Canadian assembly plants. However, it expected all the workers there to get new job opportunities through the expansion of production at a nearby plant, writes Martin Dickson.

The rationalisation comes at a time when Chrysler's profits and market share have dropped sharply because of intense competition and price cutting throughout the North American motor industry.

The company is closing its Brampton, Ontario, plant, which makes the Jeep Wrangler and employs about 1,100 hourly-paid staff but is operating far below capacity.

Production of the Wrangler will be switched from June 1992 to Chrysler's plant at Toledo, Ohio, where it will consolidate all its North American assembly of the Jeep model range. Jeep has long been the dominant brand in the sports-utility sector of the market, which has grown greatly in recent years, but its position is now under threat from both American and Japanese rivals.

The company said it did not intend to increase employment at Toledo, which currently has about 5,600 workers, but it reaffirmed that it was proceeding with plans for a new small sports utility vehicle, the JJ, and that if this was built in North America it would be produced in Toledo. Chrysler recently announced that it had abandoned plans to produce the JJ jointly with Renault of France because the venture was "no longer economically attractive."

Chrysler said yesterday that it planned to build its keenly-awaited new passenger car, the L/H, at another plant in the Brampton area, called Bramalea, starting in the summer of 1992. This plant currently employs about 900 hourly workers, but the company said it expected the L/H would increase the number of jobs to 2,400 by January 1993, creating job opportunities for all of the workers from the Wrangler plant.

USAir blames loss on fare discounting

By Roderick Oram in New York

USAIR, parent of the seventh largest US airline, yesterday attributed its fourth and largest quarterly loss in a row to over-capacity and widespread fare discounting in both east and west coast markets.

It slumped to a net loss of $75.1m, or $1.86 a share, in the second quarter ended June, from a net profit of $100.7m, or $2.29, a year earlier. Revenues slipped to $1.71bn from $1.73bn.

The first-half net loss was $113.1m, or $2.92 a share, against a net profit of $116.2m, or $2.65, a year earlier. Revenues fell from $3.25bn to $3.22bn.

"On the positive side, USAir's operational and service performance has improved dramatically and compares favourably with our competition," said Mr Edwin Colodny, chairman.

After acquiring PSA and Piedmont in 1987, USAir has had a rocky time merging the three airlines' operations.

During the second quarter, USAir increased its capacity by 6.7 per cent to 14.84bn seat/miles but traffic increased by only 1.4 per cent to 9.14bn revenue passenger/miles. As a result its load factor fell to 61.6 per cent from 64.8 per cent.

Because of the competitive pressure, notably from Eastern on routes between the north-east and Florida, its fare yield fell 3.2 per cent to 16.57 cents per seat/mile. Meanwhile its costs rose 1.7 per cent to 10.48 cents per available seat/mile and its break-even load factor increased to 60.8 per cent from 57.1 per cent. Operating income fell to $59.4m in the quarter from $200.6m.

Insurance and telecom arms help ITT

By Roderick Oram

ITT, the largest US conglomerate, has reported a small increase in second-quarter profits with improved contributions from its insurance and communications businesses offsetting weaknesses in many of its industrial areas.

Net profits for the three months ended June 30 were $258m, or $1.81 a share fully diluted, against $244m, or $1.65, a year ago. An after-tax gain of $139m from the sale of 7 per cent of its stake in Alcatel, the European telecommunications equipment maker, made ITT's final net $397m, or $2.80. Revenues were $5.23bn against $5.22bn.

The two companies pooled their telecommunications businesses in Alcatel in late 1986. ITT said its results benefited from its share of the improved earnings of Alcatel, which "increased dramatically during the second quarter." After selling part of its stake to Compagnié d'Electricité of France, ITT holds 30 per cent of Alcatel.

"Despite the difficult economic environment in the United States, ITT's overall results for the second quarter were well ahead of earlier expectations," said Mr Rand Araskog, chairman.

Among its businesses, hotels, financial services, defence and components were lower; automotive and fluid technology were flat; while insurance, pulp and paper, and communications were higher.

First-half net was $650m, or $4.57 a share, against $444m, or $3.05.

Cray Research sees continued flat sales

By Roderick Oram

CRAY RESEARCH, the leading US supercomputer maker, has reported strong second-quarter profits but continued to warn that sales would be flat for 1990 as a whole.

For the three months ended June 30, Cray had net income of $42.6m or $1.49 a share against $4.4m or 15 cents a year earlier. Sales in the 1990 quarter advanced to $227m from $128.3m a year earlier.

For the first six months, the Minneapolis, Minnesota-based company reported net income of $52m, or $1.82 a share, against $5.92m or 20 cents in the first half of 1989. Sales grew to $362.9m in the latest period from $244.4m a year ago.

Mr John Rollwagen, chairman and chief executive, said: "We continue to expect flat revenues for 1990 with opportunities for earnings improvements over last year. Our operating expenses are also in line with expectations."

Contract value of orders increased to about $180m in the 1990 quarter from $150m a year earlier, while the company's backlog slipped to about $285m from $300m at the end of the first quarter, and from $340m at the end of the 1989 second quarter.

Bethlehem Steel down by 74%

By Martin Dickson in New York

BETHLEHEM Steel, the second-largest US steelmaker, yesterday reported a 74 per cent drop in second-quarter net income, due to the current cyclical downturn in the sector and temporary plant closures for renovation work.

Bethlehem is the first leading steelmaker to announce figures for the quarter, when the industry was hit by general softness in the economy and a particular decline in motor manufacturing.

The company reported net income of $22m, or 21 cents a share, compared to $84.1m, or $1.08 a share, in the same period of 1989. Sales dropped from $1.43bn to $1.27bn.

Last year's figures were depressed by $55m of unusual restructuring charges, while this quarter's figures were hit by renovation and modernisation work on plant. This cut production and pushed up operating costs. Employment costs were higher because of a new labour agreement which came into effect on June 1.

The drop in income was also due to lower prices and lower steel shipments, which dropped from 2.6m tons in the second quarter of last year to 2.28m tons.

However, the company sounded a relatively optimistic note when it noted that its order entry rate had been relatively strong in recent months as demand from the automobile market had been somewhat greater than expected and steel imports had declined. As a result, it did not expect the usual seasonal decline in steel shipments.

For the first half, net income was $43m, down from $149m, on sales of $2.5bn, down from $2.84bn.

Newmont Mining profits surge to $20.6m

By Kenneth Gooding

NEWMONT MINING of the US, which is 49 per cent owned by Hanson, the UK conglomerate, raised second-quarter net earnings from $3.95m, or 6 cents a share last year, to $20.6m or 31 cents. This took first-half earnings from $1.28m or 2 cents a share to $63.3m or 92 cents.

Charges of $6.1m, or 9 cents a share, against $5m or 7 cents are included in both the quarter and half-year totals. First-half earnings also include an $11.6m, or 17 cents a share, gain from the sale of shares in Newmont Australia.

Newmont recently sold to Hanson its holding in the Peabody coal business, but it says the quarterly earnings do not include profits from discontinued operations of $11m or 16 cents a share, compared with $7m or 10 cents in the same months last year.

In the half-year total, net earnings did not include profit from discontinued operations of $25.7m, or 38 cents a share, against $19m or 28 cents.

● Newmont Gold, North America's biggest gold mining company which is 90 per cent owned by Newmont Mining, announced big output increases and cost cuts in advance of presentations this week to investment analysts.

Newmont Gold, which as a matter of policy does not hedge metal sales, said it would compensate for the recent gold price fall by lifting output in 1990 from the previously forecast 1.54m troy ounces to 1.7m ounces. It said it had found more high-grade ore at its Genesis deposit on the rich Carlin Trend in Nevada.

Meanwhile, cash costs of production, previously estimated to be $240 an ounce in 1990, will fall to $200 in the second half to give an average of $210 an ounce for the full year.

هكذا من الأصل

INTERNATIONAL CAPITAL MARKETS

Treasuries improve despite weak durable goods data

By Janet Bush in New York and Andrew Freeman in London

US TREASURY bonds moved marginally higher yesterday morning after a weaker than expected durable goods orders release.

At midsession, short-dated maturities were quoted mostly around ⅛ point higher and the Treasury's benchmark long bond stood ¼ point up for a yield of 8.56 per cent.

GOVERNMENT BONDS

New factory orders for durable goods fell 3.2 per cent in June which compared with a consensus forecast among Wall Street analysts of a 1 per cent rise. Even taking out the important defence component, orders fell 1.7 per cent, and stripping out transportation, orders declined 2.6 per cent.

Economists had been expecting transport orders to hold the total up but the Commerce Department said virtually all significant groups had declined in June.

The reaction of the bond market to these figures was limited, partly because it is well aware how volatile the durable goods data are. The market is also more interested in tomorrow's GNP data for the second quarter. Forecasts for the GNP release are for a growth rate of between 1.5 per cent and 2.3 per cent and a rise in the implicit price deflator of around 4 per cent.

The other focus for the Treasury market yesterday was the auction of \$11.5bn of two-year notes. There was concern over what demand would emerge at the auction with the outstanding two-year note trading at a yield of 8.07 per cent.

■ The UK government bond market had a troubled day yesterday, with prices dropping sharply following remarks by Mr John Major, Chancellor of the Exchequer. He indicated on Tuesday evening that UK inflation was proving stubborn and prompted a sell-off of sterling which fed through to gilts yesterday. Foreign investors were said to have dumped large blocks of paper, but little retail activity was reported. Analysts were unconvinced by the market's performance, saying Mr Major's remarks were not novel.

Some commentators suggested that the Government might be anxious to prevent a further rise in sterling and was deliberately dampening enthusiasm for the currency.

The benchmark 11¾ per cent gilt maturing 2003-07 was trading around 101⅛ to yield 11.52 per cent, down ⅝ on the day.

■ In Germany, traders were bemoaning the difficulties of forming a strategy in what has been volatile dealing. The overall lack of direction meant that most houses were adopting neutral positions, contributing to a noticeable decline in activity yesterday.

Despite a lack of volume, there was a steadier tone to the Bund market which easily recovered from a weak opening to stand almost unchanged at the morning fixing.

The benchmark 8¾ per cent 10-year Bund was fixed at 101.56 to yield almost exactly 8½ per cent. By the close, prices were up by around 40 pfennigs across the board.

The September Bund future was less active than on previous days, with around 30,000 contracts trading as prices stayed in a narrow range. Towards the close, the contract was trading around 84.70.

■ In Japan, the auction of August bonds was boosted by strong demand from foreign investors and the cash market moved correspondingly higher on a mixture of buying and short covering.

The benchmark 119th issue was yielding around 7.420 per cent at the close in Tokyo against 7.520 at the previous close. The auction had a higher than expected average subscriber yield of 6.904 per cent.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	94-14	-8/32	12.48	12.41	12.38
		10.500	5/99	92-13	-17/32	11.91	11.75	11.61
		9.000	10/08	84-15	-23/32	10.96	10.87	10.73
US TREASURY *		8.875	05/00	103-13	+3/32	8.50	8.51	8.53
		8.750	05/20	101-31	+8/32	8.56	8.54	8.51
JAPAN	No 119	4.800	6/99	85.9702	+0.118	7.42	7.27	7.21
	No 2	5.700	3/07	89.2487	-0.136	7.11	6.92	6.73
GERMANY		7.750	02/00	95.1000	+0.109	8.50	8.37	8.77
FRANCE	BTAN	9.000	02/95	96.9732	+0.071	9.82	9.86	10.02
	OAT	8.800	03/00	93.5000	+0.100	9.64	9.53	9.64
CANADA *		9.750	06/00	94.4500	+0.069	10.67	10.60	10.83
NETHERLANDS		9.000	06/00	101.7800	+0.070	8.71	8.63	8.91
AUSTRALIA		12.000	7/99	93.7343	-0.198	13.21	13.30	13.60

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Bahrain banking group in share offering

By Stephen Fidler, Euromarkets Correspondent

OUTSIDE shareholders subscribed \$300m to an offering of shares by Arab Banking Corporation, the Bahrain-based international banking group, the bank's chairman said yesterday.

Mr Abdulla Saudi said that, as provided for in the offer document, two existing shareholders – the Governments of Kuwait and Libya – would take a further \$50m of the shares. The two Governments would have taken a further \$50m if necessary.

The bank's third shareholder is the government of Abu Dhabi, which made no offer to enlarge the number of shares it holds. The \$350m offering was the only international share offering yet to have been launched by an Arab company.

Mr Saudi said some 3,600 shareholders had been added to the company share register.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:10 pm on July 25

U.S. DOLLAR STRAIGHTS / OTHER STRAIGHTS / DEUTSCHE MARK STRAIGHTS / SWISS FRANC STRAIGHTS / YEN STRAIGHTS / FLOATING RATE NOTES / CONVERTIBLE BONDS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Sumitomo Bank plans new US subsidiaries

By Ian Rodger in Tokyo

SUMITOMO Bank is investing \$320m to set up new investment management, leasing and securities subsidiaries in the US.

The bank, Japan's second largest in terms of assets, is also setting up a US subsidiary to manage the three new companies and two existing ones in the United States, Sumitomo Bank Capital Markets and Sumitomo Bank of New York Trust.

Analysts in Tokyo said the move, which could be followed by other Japanese banks, foreshadowed the removal of the legal barrier in Japan preventing banks from conducting securities businesses. Sumitomo wished to gain experience at managing a diversified group of financial companies together before it became possible to do so in Japan.

In choosing to set up its own investment management, leasing and securities subsidiaries rather than acquire existing ones, the bank was also trying to avoid the bad publicity that tends to accompany acquisitions of US companies by Japanese ones recently, analysts added.

Mr Sotoo Tatsumi, president, said the new non-banking subsidiary group in the US would provide a variety of sophisticated financial services which are necessary to meet the diversified and globalised demands of its clients. He added that the investment by the bank in new subsidiaries would "create a unique opportunity for Americans of outstanding ability to work both with the bank's US and Japanese clients."

All three would have an American chief operating officer, and the number of Japanese personnel would be minimised.

The new management subsidiary would hold 10 per cent stakes in each of the five operating subsidiaries, with the remainder held by the bank.

Sumitomo is aiming to set up the new firms within the year, and has begun the process of applying to the various Japanese and US regulatory authorities for the needed approvals.

Sumitomo has four branches, two agencies and one representative office in the US. It also owns Sumitomo Bank of California and, through its subsidiary, Sumitomo Bank Capital Markets, holds an investment of \$500m in Goldman Sachs, the US securities group.

A Sumitomo Bank official said there would be no change in limitations on the relationship between Sumitomo and Goldman stipulated by the US Federal Reserve when Sumitomo bought its stake four years ago. The Fed was concerned about potential Sumitomo influence over a primary dealer.

However, Sumitomo's new securities subsidiary might buy US Treasury bonds on an arm's length basis from Goldman.

Standard Chartered debt rating lowered

By Andrew Freeman

THE debt rating of Standard Chartered, the London-based international bank, was lowered yesterday by Moody's Investor Service. Moody's cited the group's deteriorating asset quality, higher provisions and reduced profitability.

Standard Chartered Bank's long-term deposits and senior debt was downgraded from A1 to A2, while the subordinated debt of Standard Chartered plc was rated BAA2 from A3. Approximately \$2bn of securities is affected.

The move caused little surprise among analysts. Standard Chartered has had well-publicised problems in recent years and is considered vulnerable to takeover. But, the deterioration of its underlying business could deter potential predators.

Moody's said the bank is suffering from regional problems because markets such as Hong Kong, Australia and the UK in which it has its main operations are facing severe economic slowdowns or uncertainty. These will lead to a fall in the bank's credit quality.

Standard Chartered also has exposure in the troubled property and highly leveraged debt markets which will require additional provisions, said Moody's.

● Moody's assigned a Prime-1 rating to Thames Water, the recently privatised UK water authority, for its sterling commercial paper programme.

● Wardley, a subsidiary of the Hongkong and Shanghai Banking, will issue call warrants to buy a basket of shares in 20 Hong Kong blue-chip companies, Reuter reports. The three-year warrants will allow investors the right to receive cash or shares from the issuer.

LEGAL NOTICES

[illegible]

Name of person appointing the joint administrative receivers
Lloyds Bank Plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
Joint Administrative Receivers
(Office holder nos 249 and 158)
Cork Gully
43 Temple Row
Birmingham
B2 5JT

[illegible]

CONTRACTS & TENDERS

INVITATION TO TENDER
ISSUED BY THE GUYANA SUGAR CORPORATION LIMITED
FOR A PROJECT TO BE FINANCED
BY THE
INTER-AMERICAN DEVELOPMENT BANK
LOAN CONTRACT [illegible]
AGRICULTURAL REHABILITATION PROJECT: MACHINERY AND EQUIPMENT FOR GUYSUCO

Tenders are hereby invited from suppliers for the provision of the undermentioned agricultural machinery and equipment to be acquired for an agricultural rehabilitation programme partially funded by the Inter-American Development Bank (IDB).

Tenders are invited from firms which are from Regional and Non-Regional member Countries of the I.D.B. for the supply of the following machinery and equipment, following international competitive bidding, by the Guyana Sugar Corporation Ltd. through the Central Tender Board Committee of the Ministry of Finance. Eligibility with respect to origin of goods and services will be determined pursuant to the rules applicable for the use of the fund.

SUMMARY OF EQUIPMENT

LOTS	QUANTITY		DESCRIPTION
A1	TWO	(2)	Bulldozers, power shifts, approximately 160 horsepower
A2	THIRTEEN	(13)	Crawler tractors, direct drive, agricultural specification of approximately 160 horsepower with fully mounted harrows.
A3	THIRTEEN	(13)	Tracked hydraulic excavators of approximately 100 horsepower and 13 tonnes weight.
A4	ONE	(1)	Motor grader, 6 x 4 of approximately 120 horsepower
A5	SIXTY	(60)	Agricultural tractors, two wheel drive of approximately [illegible]
A6	EIGHTEEN	(18)	[illegible]
A7	SIX	(6)	[illegible]
A8	TWO	(2)	[illegible]
A9	SIX	(6)	[illegible]
A10	EIGHTEEN	(18)	[illegible]
A11	TWO	(2)	[illegible]

[illegible]

The Chairman, Central Tender Board Committee [illegible] — J.F.I. [illegible], Director Corporate Planning, Guyana Sugar Corporation Limited, 22 Church Street, Georgetown, GUYANA.

[illegible]

Name of person appointing the joint administrative receivers
Lloyds Bank Plc
JOHN FREDERICK POWELL and MICHAEL ANTHONY JORDAN
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43 Temple Row
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B2 5JT

PERSONAL

DAVID LEADBETTER the Open champion's coach and Golf World Magazine, offer the most exclusive 3 day residential instruction school in Europe at Collingtree Park Golf & Country Club in Northampton on the 29th-31st July. Limited availability, fully inclusive package of £1,500. For more information, phone Michael Brosnan, Director of Schools, on 071-538 1031 ext 250 or fax 071 537 3647.

INTERNATIONAL CAPITAL MARKETS

Madrid suspends matador issues to curb peseta

By Tracy Corrigan

THE SPANISH Treasury has suspended new issues of peseta-denominated bonds by foreign borrowers until September, in a bid to check the strength of the peseta without cutting interest rates, according to market participants.

Spanish Treasury officials were unavailable for comment.

For most of July, the peseta has been trading at the top of its range in the European monetary system. The strength of the currency is fuelled by foreign investment in peseta assets such as "matador" bonds, peseta-denominated bonds issued by foreign borrowers in the Spanish market.

Avoiding a revaluation of the currency and rate cuts, Spain's strategy is to "continue to intervene to restrain the peseta hoping that (it) will weaken when the tourist season closes in September," and to tighten inward exchange controls, according to Mr William Ledward, an economist at the Nomura Research Institute. One problem with this policy is that Spain already has "excessively high foreign exchange reserves" of $45.8bn at the end of June.

In the bond market, the decision to suspend issuance until September has further boosted demand for existing paper, dealers say. The market's small size has already proved insufficient to satisfy demand. A lot of paper is tightly held by retail investors, further reducing the pool of bonds available, and Italian investors have recently become active buyers of the market, which holds tax benefits for them.

Last week's issue for the Kingdom of Denmark, the first for a sovereign borrower, is already trading substantially higher. The 10bn pesetas issue of 13¾ per cent five-year bonds is quoted at 102 bid, above its 101¾ issue price, and up a point from the start of this week.

Ford Australia deal goes well

By Tracy Corrigan

FORD Credit Australia's A$75m issue of 14¼ per cent Eurobonds was considered fairly priced, and met steady demand from European retail investors.

However, some traders were reluctant to take more paper on to their books, having already adopted long positions because they are expecting Australian base rates to be lowered soon. A cut of about ½ point has already been discounted by the market, traders said.

The Ford deal, swapped into floating-rate Australian dollars, was quoted within two point fees at less 1¾ bid.

Its performance is likely to be further enhanced by any cut in rates.

Although, retail interest is generally dwindling as the market sinks into its usual summer lull, demand is underpinned by the volume of bond redemptions in July and August.

The level of reinvestment in the sector has risen from about 25 per cent earlier this year, but is still under 50 per cent, according to market makers. This improvement has been prompted in part by the currency's better-than-expected performance this year.

In the equity-linked sector of the Swiss market, borrowers and lead managers were unable to agree on coupon levels for two deals due to be fixed yesterday.

Chugoku Marine Paints' SFr30m issue and Canon Sales' SFr300m deal both have indicated coupons of 3½ per cent, and are trading well above issue price. The failure to set terms yesterday suggested that issuers may be hoping to cut interest rates, as the deals have performed well.

In the dollar equity-linked sector, all the deals launched since the market reopened early this month have had fixed coupons, following a consensus among lead managers keen to preserve an orderly market.

Some Swiss banks have followed this example.

Meanwhile, Furukawa launched a SFr150m issue of bonds with warrants via Credit Suisse, which traded at 101¾ bid, above its par issue price.

Elsewhere in the Swiss market, Postipankki, the Finnish bank, brought a SFr75m issue of 7⅛ per cent subordinated bonds. The deal represents J Henry Schroder Bank's first mandate this year. The issue was quoted on full fees at less 2¾ bid by dealers, but at less 2½ bid by the lead manager.

Montreal Trust's SFr100m of five-year notes, launched on Tuesday picked up some ground.

The issue was quoted at less 1⅝ bid, up from less 2 bid on Tuesday but outside 1⅝ point fees.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
AUSTRALIAN DOLLARS						
Ford Credit Australia(a)♦	75	14¼	101¾	1995	2/1¼	Hambros Bank
CIBC Australia(b)♦	60	6	61½	2000	2/1¼	Nikko Secs. (Europe)
SWISS FRANCS						
Furukawa Co.(c)**♦	150	4	100	1995	1⅝	Credit Suisse
Postipankki(d)♦	75	7⅛	101¾	2005	2¾	J.H. Schroder Bank

**Private placement. ‡With equity warrants. ♦Final terms. a) Non-callable. b) Unlisted. Non-callable. c) Callabe from August 1993. d) One call only after 10 years at par.

London SE proposes significant rule changes

By Richard Waters

LONDON'S International Stock Exchange yesterday proposed significant changes to the way stock market business is handled on the days when futures and options contracts based on stock indices expire.

The changes, presently in the form of a discussion paper, are intended to prevent a repetition of the volatility on the London stock market on June 29.

Two houses, Goldman Sachs and Barclays de Zoete Wedd, were responsible for sharp swings in share prices which brought accusations of market manipulation from others in the market, although both have denied this.

The most controversial of the proposals would place far greater constraints on securities houses, to prevent them from manipulating the benchmark FTSE 100 index during the ten-minute period when it is being calculated for futures and options settlement.

The plans include making it a breach of Exchange rules for market makers to bid share prices up during the expiry period if they have long futures positions (or vice versa).

Another proposal is to force firms which have large positions to unwind to take greater steps to ensure that others in the market can actually deal with them. Normal market procedures would be overridden at such times to increase the speed at which business is done.

Market supervision staff from the ISE and a house's own compliance officer would be on the dealing floor to monitor trading at such times.

The effects of stock index arbitrage are also being reviewed, although the exchange said it still believed such activity was beneficial in preventing anomalies between derivatives and underlying cash markets. Other proposals are to alter the way the FTSE is calculated for settlement purposes, changing the dates when futures contracts expire, and issuing "health warnings" to the public on expiry days.

Submissions must reach the committee by 6 August, with initial rule changes planned before the next futures expiry at the end of September.

US thrift in $3bn junk bond sale

By Janet Bush in New York and Bernard Simon in Toronto

COLUMBIA Savings & Loan, the California thrift which is insolvent because of $1bn in losses and market declines in the value of its junk bonds in recent months, yesterday agreed to sell its junk portfolio for $3bn to Gordon America L.P.

Columbia's portfolio is believed to be worth a little under $3bn at current market prices and is therefore by far the largest holding by any single savings and loan.

The sale, which is subject to corporate and regulatory approvals, proves that there are buyers available for high-yield bonds.

This is not only crucial for other thrifts which have been ordered by the government to sell their high-yield holdings by 1994 but also for Resolution Trust set up by the government to bail-out insolvent thrifts and which is now estimated to hold $4bn in junk bonds.

If Columbia had attempted to sell its portfolio in the open market, it would doubtless have got a much lower price. The sheer size of the portfolio would in itself have depressed junk prices.

Gordon America LP, a partnership associated with Gordon Investment Corp (GIC), an aggressive merchant bank based in Toronto and New York, will pay $300m in cash and take out a loan from Columbia in the form of a $2.7bn note bearing interest at a rate of 10.5 per cent a year.

In addition, it will pay a fee of up to $50m depending on the term of the loan.

The terms of the loan include a clause providing for a default by Gordon. Gordon's principal shareholders would not be liable, Columbia would take the junk bonds back and Gordon would simply lose its $300m cash payment.

Gordon offered the best terms of eight bidders, many of which were seasoned buyers of junk bonds. Interestingly, Gordon's shareholders are relative newcomers to the high-yield market.

Gordon will expect to hold on to the portfolio as a long-term investment and make money from the interest and principle payable on the securities. If it were to try to sell the bonds in the market, it would face the same price problems as Columbia would have done.

The deal marks one of the rare occasions that Toronto's most aggressive and secretive securities firm, Gordon Capital, has allowed the spotlight to fall on its merchant banking arm.

GIC was created by Gordon Capital in 1987 as a means for Gordon to make sizeable investments without eroding its own limited capital base. Instead, it has tapped a blue-chip circle of outside partners, which include the Kuwait Investment Office, General Electric Capital, Hutchison Whampoa of Hong Kong, Japan's Yasuda Trust and Banking, Canadian Imperial Bank of Commerce and Hollinger, the media group controlled by Canadian financier Mr Conrad Black.

According to one participant in the group, the driving force in putting GIC together - besides Gordon Capital - was CIBC, Canada's second largest, has a close and long-standing relationship with Mr Li Kashing, the Hong Kong magnate who controls Hutchison Whampoa. Mr Li is the largest individual shareholder in CIBC.

GIC has so far had mixed results on its ventures. It made a handsome windfall early in its life by buying and quickly reselling a stake in Great Lakes Forest Products, now part of Canadian Pacific Forest Products.

But an interest in a mid-sized Toronto securities firm, heavily focused on the retail market, has so far turned out to be less rewarding.

Gordon Capital, with assets of about C$1.7bn, has on several occasions had its knuckles rapped by securities regulators. It is currently appealing a ten-day trading ban imposed by Ontario Securities Commission earlier this year.

Morgan Grenfell in US venture

By David Lascelles, Banking Editor

MORGAN Grenfell, the merchant bank owned by Deutsche Bank, is teaming up with a New York firm, Gleacher & Co, to form a joint company specialising in international mergers and acquisitions, and corporate advisory services.

Gleacher was founded in January by Mr Eric Gleacher, formerly head of worldwide mergers and acquisitions at Morgan Stanley, the US investment bank. The joint venture will be called Gleacher Morgan Grenfell and will be based in New York. It is subject to regulatory approval.

Morgan Grenfell, one of the leading names on the London merchant banking market, is now responsible for the development of Deutsche Bank's mergers and acquisitions business. Both Gleacher and Morgan Grenfell intend to conduct all their US M&A and corporate advisory services as well as cross-border transactions between the US and the rest of the world through it.

Mr John Craven, the chairman of Morgan Grenfell, said the arrangement would enable his bank to handle top class US deals which it had previously not been able to do because of inadequate representation on the US market. He said the best way to approach the US was by linking with a local partnership rather than buying a firm outright.

Mr Gleacher said he was glad to team up with some of Europe's most knowledgeable and experienced financial professionals while retaining his firm's entrepreneurial size and focus on M&A work. He said the partnership would be of particular value to US companies seeking European investment, and European companies making large acquisitions in the US.

Both Gleacher and Morgan will contribute to the running costs of the firm, and will share in its profits according to a formula based on who originated particular deals and who executed them. Representatives of Morgan and Deutsche Bank will join the board of GMG, and Mr Gleacher will join Morgan's board. The two firms will also swap staff.

The deal is understood to have been initiated by Morgan Grenfell at the time when Mr Gleacher left Morgan Stanley last winter to set up his own business. Gleacher & Co has about 20 employees, some of them also former Morgan Stanley professionals. One of the largest deals it advised on was the acquisition by ConAgra of the Beatrice Company from buy-out specialists KKR.

The link-up is the latest of a series of trans-Atlantic alliances involving corporate finance boutiques. In April, Hambro Magan of London joined forces with the Blackstone Group of New York.

Six Japanese banks will lend Australia's state-owned Qantas Airways $62m to help finance purchases of aeroplanes using a leveraged lease, maturing in 2002, Reuter reports. Dai-Ichi Kangyo Bank will act as lead manager.

International Greek fund launched

By Antonia Sharpe

BARING SECURITIES is set to launch today its Greek Progress Fund, the first closed-end company to be marketed to both international and Greek investors.

It aims to achieve its performance by taking equity stakes in companies prior to their listing on the Athens Stock Exchange.

The total size of the fund will be up to Dr12,400m ($75m) and the subscription period runs until August 17.

A significant sum has already been pledged from UK, US and French institutions and $15m will be placed with Greek investors.

Under Greek law, investment companies can invest up to 20 per cent of their paid-up capital in unlisted securities.

The Fund will be taking an active role in this so-called "mezzanine" financing, especially now that many Greek banks have reached their ceiling for contingent liabilities.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section	Wed Jul 25 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Tue Jul 24 Index No.	Mon Jul 23 Index No.	Fri Jul 20 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (194)	877.04	-0.3	13.19	5.29	9.26	23.04	879.93	878.24	890.26	983.17
2 Building Materials (26)	1121.26	-0.1	13.63	5.37	9.06	30.01	1122.08	1113.38	1128.60	1211.50
3 Contracting, Construction (36)	1438.27	+0.4	16.33	5.72	7.87	35.78	1432.02	1420.52	1444.49	1615.16
4 Electricals (10)	2438.55	+0.3	11.77	5.46	10.46	61.43	2432.28	2435.71	2449.58	2929.26
5 Electronics (26)	1796.95	-0.8	10.54	4.47	12.42	51.42	1812.29	1826.00	1853.83	2258.95
6 Engineering-Aerospace (8)	461.88		14.06	5.09	8.48	10.79	462.13	460.79	475.16	0.00
7 Engineering-General (46)	492.82	+0.4	12.08	5.19	10.04	11.34	490.87	490.34	489.86	0.00
8 Metals and Metal Forming (6)	491.18	-0.6	23.51	6.84	5.18	16.68	494.06	490.80	496.50	525.13
9 Motors (13)	353.25	+0.6	15.98	6.62	7.28	9.81	351.28	349.85	355.55	344.43
10 Other Industrial Materials (23)	1574.12	-1.1	11.07	5.07	10.45	39.22	1590.96	1581.41	1612.02	1678.46
21 CONSUMER GROUP (179)	1313.19	+0.3	9.24	3.85	13.36	24.06	1309.60	1312.01	1329.25	1299.50
22 Brewers and Distillers (22)	1629.34	-0.4	9.36	3.58	12.85	30.46	1635.11	1630.67	1650.55	1424.39
25 Food Manufacturing (20)	1102.42	+0.4	10.31	4.30	12.01	23.19	1098.00	1098.83	1111.79	1191.14
26 Food Retailing (16)	2614.11	+0.9	8.69	3.15	14.73	40.59	2591.06	2578.98	2608.92	2489.79
27 Health and Household (15)	2570.15	+0.3	6.73	2.70	17.66	25.21	2562.57	2574.66	2623.70	2313.59
29 Leisure (33)	1451.79	+0.6	9.99	4.26	12.20	34.00	1443.63	1442.95	1461.42	1716.15
31 Packaging & Paper (12)	610.82	+0.3	10.85	5.63	11.33	12.94	608.83	609.11	617.57	601.67
32 Publishing & Printing (16)	3410.54	-1.1	10.55	5.41	11.84	105.00	3447.54	3537.09	3593.14	3696.58
34 Stores (34)	825.41	+0.7	10.72	4.56	12.08	16.49	819.45	816.35	827.73	864.37
35 Textiles (11)	495.78	+0.8	12.42	7.25	10.16	10.26	491.69	489.21	493.46	556.14
40 OTHER GROUPS (107)	1170.28	+0.2	11.13	5.07	10.83	25.61	1168.35	1174.52	1198.08	1179.25
41 Agencies (17)	1514.35	+1.2	6.65	2.59	18.19	15.86	1496.42	1664.24	1702.38	1410.70
42 Chemicals (23)	1269.97	-0.7	11.10	5.23	10.54	31.96	1278.77	1283.94	1296.45	1311.36
43 Conglomerates (15)	1645.59	+0.6	10.36	6.07	11.60	31.95	1635.04	1628.05	1666.78	1679.77
44 Transport (13)	2359.17	+0.5	10.43	4.39	12.18	49.33	2346.91	2329.49	2358.96	2467.23
46 Telephone Networks (2)	1193.81	-0.1	11.23	4.72	11.58	26.09	1195.44	1187.63	1229.35	1075.73
47 Water (10)	1977.19	+1.1	16.23	6.85	6.89	68.12	1955.05	1915.60	1911.97	0.00
48 Miscellaneous (27)	1774.73	-0.2	12.42	5.06	9.17	41.95	1778.01	1790.05	1819.63	2039.59
49 INDUSTRIAL GROUP (480)	1171.32	+0.1	10.77	4.57	11.34	24.98	1170.20	1172.55	1190.64	1203.20
51 Oil & Gas (20)	2421.96	+0.6	12.12	5.09	10.81	60.49	2407.54	2370.11	2396.06	2154.58
59 500 SHARE INDEX (500)	1275.36	+0.2	10.97	4.65	11.26	27.88	1273.22	1272.58	1291.91	1284.04
61 FINANCIAL GROUP (108)	807.76	+0.1	-	5.67	-	21.40	806.56	802.13	812.70	770.09
62 Banks (9)	867.11	+1.3	18.88	6.22	6.93	25.62	856.36	855.26	869.49	747.21
65 Insurance (Life) (7)	1501.47	-0.7	-	4.91	-	36.94	1512.75	1489.85	1513.45	1168.58
66 Insurance (Composite) (6)	676.59	-0.9	-	6.11	-	19.43	682.45	679.49	690.43	612.11
67 Insurance (Brokers) (8)	954.06	-0.4	9.02	6.74	14.61	32.95	957.45	943.38	951.04	971.90
68 Merchant Banks (7)	437.49		-	4.63	-	10.76	437.68	440.17	443.85	363.10
69 Property (47)	1100.86	-0.4	7.96	4.29	16.12	19.93	1105.82	1093.74	1097.72	1369.40
70 Other Financial (24)	289.64		10.53	6.75	12.30	8.95	289.68	289.46	292.38	375.71
71 Investment Trusts (66)	1218.54	+0.1	-	3.17	-	18.16	1216.93	1212.22	1230.83	1205.73
91 Overseas Traders (5)	1453.48	+0.8	9.69	6.29	12.33	59.65	1442.38	1448.28	1480.87	1409.05
99 ALL-SHARE INDEX (679)	1162.86	+0.2	-	4.76	-	26.13	1160.91	1159.41	1176.37	1158.37

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jul 24	Jul 23	Jul 20	Jul 19	Jul 18	Year ago
FT-SE 100 SHARE INDEX‡	2364.7	+3.8	2382.5	2363.1	2360.9	2359.7	2400.1	2387.3	2402.0	2254.5

FIXED INTEREST

PRICE INDICES	Wed Jul 25	Day's change %	Tue Jul 24	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	115.48	-0.16	115.67	-	7.49
2 5-15 years	121.37	-0.74	122.28	-	7.68
3 Over 15 years	125.25	-1.02	126.55	-	6.15
4 Irredeemables	142.37	-0.63	143.27	-	7.35
5 All stocks	121.54	-0.56	122.23	-	7.57
Index-Linked					
6 Up to 5 years	147.31		147.31	-	1.49
7 Over 5 years	135.55	-0.34	136.01	-	2.51
8 All stocks	136.32	-0.32	136.75	-	2.43
9 Debentures & Loans	101.46	-0.03	101.50	-	6.22
10 Preference	75.61	+0.17	75.48	-	3.58

AVERAGE GROSS REDEMPTION YIELDS		Wed Jul 25	Tue Jul 24	Year ago (approx.)
British Government				
1 Low Coupons	5 years	10.83	10.71	9.74
2	15 years	10.83	10.70	9.20
3	25 years	10.83	10.70	9.09
4 Medium Coupons	5 years	12.11	11.98	10.46
5	15 years	11.33	11.19	9.59
6	25 years	10.98	10.85	9.24
7 High Coupons	5 years	12.19	12.07	10.60
8	15 years	11.57	11.43	9.82
9	25 years	11.21	11.08	9.43
10 Irredeemables†		10.84	10.76	9.18
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	5.39	5.38	3.06
12 Inflation rate 5%	Over 5 yrs.	4.36	4.34	3.53
13 Inflation rate 10%	Up to 5 yrs.	4.24	4.22	2.26
14 Inflation rate 10%	Over 5 yrs.	4.17	4.15	3.36
15 Debs & Loans	5 years	13.85	13.64	12.41
16	15 years	12.79	12.78	11.85
17	25 years	12.50	12.50	11.33
18 Preference†		12.57	12.59	10.26

‡Opening index 2369.5; 9 am 2378.1; 10 am 2378.6; 11 am 2373.6; Noon 2370.8; 1 pm 2371.1; 2 pm 2369.7; 3 pm 2371.5; 4 pm 2363.2; 4.10 pm 2364.1; (a) 9.45am (b) 3.57pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	3	80	15
Corporations, Dominion and Foreign Bonds	0	5	17
Industrials	364	244	965
Financial and Properties	173	122	447
Oils	44	15	29
Plantations	0	0	10
Mines	72	10	60
Others	95	32	116
Totals	751	508	1,579

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings July 16
- Last Dealings July 27
- Last Declarations Oct. 18
- For settlement Oct. 29

For rate indications see end of London Share Service. Calls in Aviva Pet., Aberfoyle, Polypipe and Reuters.

LONDON TRADED OPTIONS

THE FUTURES market set the pace for UK equities during the first half of the session yesterday, while in the traded options market a decline in BTR shares spurred activity on.

The September FT-SE 100 index contract began the day strongly after Wall Street closed above its lows. At one stage, the gap between the futures and the underlying FT-SE index was 70 points, boosting the cash market.

But during the afternoon, the futures market fell back as Wall Street traded uncertainly. The market was also concerned by the decline in sterling and UK government bonds, which were reacting to worries over the outlook for inflation.

September closed at 2,423.0, up 5.0 on the day. Its premium to the cash market finished unchanged ended at 59 points, with 35-40 points of that being a calculation of future dividend payments and financing costs.

In the traded options market dealing remained subdued due to the lack of volatility in the stockmarket since its sudden drop on Monday. This was reflected in the FT-SE index options, which traded 3,584 contracts compared with 7,503. Yesterday's FT-SE index total was divided between 1,836 calls and 1,748 puts. The July 2,350 puts were busiest, trading 564 lots.

Total market turnover stood at 27,617 lots, compared with 30,720 in the previous session. Yesterday's total was divided between 18,727 calls and 8,890 puts.

BTR was the busiest stock option as the underlying securities fell 15 to 409p in busy trading. A total of 2,363 contracts changed hands, of which 1,736 were calls and 627 were puts.

The August 420 calls were the busiest, trading 800 lots.

After its sharp decline on Tuesday, Reuters remained actively traded. Trading was boosted by one securities house which the October 1100 calls, sold the October 1150 calls and bought the October 1200 calls.

Turnover was high in BP as worries remained about tension in the Middle East.

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UK COMPANY NEWS

Hepworth drops 6% to £50m in housing decline

By Jane Fuller

HEPWORTH, the building materials and home products group, limited the damage of the housing downturn with a pre-tax profit fall of 6 per cent to £50.12m in the six months to June 30.

Turnover rose by 8 per cent to £335.81m, although this was wholly accounted for by two months' sales from Saunier Duval, the French gas boiler maker bought for £155m. Saunier's profit contribution was £2.2m and the interest charges associated with the purchase amounted to £3.4m.

Mr Sinclair Thomson, chief executive, said pretty awful conditions had been experienced by the housing-related subsidiaries. Housing starts had been 29 per cent down on the first half of last year and house moves had plummeted by 45 per cent.

Home products, which includes domestic boilers (not Saunier), bathrooms and doors, saw its operating profit fall by 20 per cent to £8m. About 30 per cent of the division's work was related to new building and the rest to repairs and improvements: both had fallen rather than the latter showing a compensatory increase.

At the heavier end of the business, there had been a slow deterioration. The building products division, which includes drainage pipes, maintained operating profit at £20.7m.

Sinclair Thomson: pretty awful conditions experienced

Refractories, typically heat deflectors for the steel industry, saw 9 per cent sales growth to £57.9m, but a profit decline to £12.3m (£12.7m). In the minerals and chemicals division, which supplies industrial sands to the glass and foundry industries, profit slipped by 4 per cent to £9.1m.

Mr Thomson said the group had two main cushions against difficulties in UK: overseas earnings and cost cutting.

In the second half, exports and overseas subsidiaries would contribute more than 40 per cent of sales and about 35 per cent of profit. This compared with 28 per cent and 22 per cent respectively in 1989.

Cuts had included reducing the number of employees from an average of 10,600 last year to 9,900 last month. Sites were being closed at Saunier's UK subsidiary and through integrating Glow-worm and Parkray. Capital spending was, however, likely to rise to £48m this year, against £30m last.

After the Saunier acquisition, gearing shot up from 4 to 67 per cent. By June 30, it had come down to 53 per cent.

Earnings per share declined to 16.83p (17.97p). The interim dividend is being increased to 5.5p (5.15p).

● COMMENT

Come the autumn, Hepworth's speedily issued interims might seem like a beacon of resilience. The problem is that no housing upturn is in sight to offset the commercial/industrial deterioration. In Hepworth's favour is its strong management, as shown by its shrewd spending (on Saunier and capital projects) and cool cutting, including imminent disposals in the industrial products division. A sign of the tight financial control is that interest payments excluding the Saunier debt were a mere £200,000. A full-year pre-tax profit of between £95m and £100m gives a prospective p/e between 9 and 10 on the closing price of 303p. You'd be congratulating yourself if you had bought at 240p in April. It is still worth holding as a quality stock in a beleaguered sector.

Decline in all main divisions caused 47% drop at Savills

By David Barchard

PRE-TAX profits at Savills, the estate agency and chartered surveyor, plunged 47 per cent, from £6.52m to £3.48m, in the year ended April 30 1990.

The group is one of the most diversified estate agencies and till now has fared better than many of its competitors.

Earnings per share were halved to 6p. The final dividend is unchanged at 2.625p for a maintained total of 3.75p.

All the main divisions showed reduced performances, with the residential side moving into loss for the first time ever, reported Mr George Inge, chairman. It lost £494,000 on turnover of £7.8m, compared with a profit of £824,000 on £8.57m in 1989.

The commercial division saw a 24 per cent fall in profits to £2.96m (£3.87m), with most of the decline coming in the second half.

Income from agricultural plunged 38 per cent to £784,000 (£1.27m) largely because of a slowing down in the development land market, but turnover was up 12 per cent.

● COMMENT

In the feast and famine world of estate agencies, Savills's 53 per cent increase in pre-tax profits in 1989 has been converted into a 47 per cent fall this year. The losses from its up-market residential division are modest by comparison with those of its competitors, and it even managed to stay in profit on the London operations. The deterioration of the performance of its commercial and agricultural divisions is not surprising, but it is worrying that so much of it seems to have been packed into the second half. The remainder of 1990 looks fairly bleak until interest rates fall. With a small network of 28 branches and some diversification outside the UK, Savills looks as well set to ride out the storm as its competitors. But it admits the going will be tough.

NFC makes acquisition in US

NFC, the freight group, is buying Minute Man Delivery Systems, a Boston-based distribution company, for $30m (£16.59m) and up to $7.5m more depending on earnings.

Minute Man will become part of NFC's Exel Logistics subsidiary which is the largest public warehousing operator in North America.

NFC said that Minute Man, which made pre-tax profits of $2.8m on turnover of $21.2m in 1989, would considerably increase Exel's share of the North American distribution market.

BDDP may gain 49.9% of Broad St with no bid

By Clay Harris, Consumer Industries Editor

BOULET DRU Dupuy Petit, the French advertising agency, may see its shareholding in Broad Street Group rise to 49.9 per cent by next summer without having to make a full takeover bid for the quoted public relations company.

Broad Street yesterday disclosed the imminent increased ownership role of BDDP, which holds 29.9 per cent at present, and gave details of a rights issue which will allow it to proceed with the restructuring of its PR agencies.

The Takeover Panel has waived the requirement for a full bid, conditional on a poll of the 40 to 45 per cent of current Broad Street shareholders deemed to be "independent". Directors Mr Brian Basham and Mr Michael Preston are thought to be acting in concert with BDDP.

The French company stands to acquire more shares in two ways. It has agreed to buy half of any shares to be issued in deferred consideration for Broad Street's purchase of the Lynne Franks PR agency. BDDP will subscribe for half of the 4.09m such shares to be issued this year and has agreed to do the same in 1991 if Franks again meets earn-out targets.

It is also standing behind most of yesterday's rights issue. Shareholders will be offered one share at 18p for every four already owned. The issue aims to raise £1.25m for Broad Street and £280,000 for executives of the City PR agency Financial Dynamics, as part of the group's early settlement of deferred performance-linked payments.

The cash call is not conventionally underwritten but BDDP has agreed to subscribe for any of the 8.6m shares in the main part of the issue which other shareholders do not take up. The Financial Dynamics executives will similarly retain any of their 1.56m shares shunned by other shareholders.

Although the latest plan leaves unchanged at £4.93m Broad Street's total deferred payments for Financial Dynamics, the terms have been altered in several ways:

● Broad Street is bringing forward the finishing line from July 1991, declaring that Financial Dynamics would meet the target in the absence of unforeseen circumstances;

● Financial Dynamics' vendors are getting some money early, including £2.5m in loan notes, but they will have to wait longer for the rest, and it will come as shares. The number of shares to be issued is capped.

Narrow boundaries confine investigation

Paul Abrahams examines the MMC green light for British Airways

THE Monopolies and Mergers Commission inquiry into the creation of Sabena World Airlines, the joint-venture between British Airways, Sabena and KLM Royal Dutch Airlines, was launched in March after objections to the deal from a number of competitors.

The competitors included the UK airlines, British Midland Airways, Air Europe, Air UK, and Dan Air as well as TEA, the largest privately-owned charter company in Belgium.

However, the scope of the investigation into SWA was always confined within narrow boundaries. The MMC concluded that the main effects of the deal lay outside the UK and beyond the MMC's jurisdiction.

The MMC therefore only examined the effects of SWA's creation on competition between the UK and Belgium and particularly on the London Heathrow-Brussels route. BA and Sabena are presently the sole operators between these two destinations.

Although the report concluded that competition between the two airlines on the Heathrow-Brussels routes was less than vigorous, it argued that the ability of the airlines to raise fares in an unfair manner was already controlled by the Civil Aviation Authority. Last year, the CAA refused airlines permission to raise prices on 90 fares to 26 countries.

The MMC also pointed out that if fares between Heathrow and Brussels were raised too high, British Midland Airways, which is the UK's second largest scheduled carrier and has a licence to operate the route, would enter the market.

The MMC therefore decided that the creation of SWA was unlikely to lead to any significant changes in competition between BA and Sabena on the Heathrow-Brussels route.

The creation of SWA was also unlikely to reduce competition on other Belgium-UK routes, according to the MMC report. It pointed out that there was no congestion at either Manchester or Birmingham airport, from which both BA and Sabena now operate services. The lack of congestion meant there was no barrier to entry for other airlines on these routes.

The MMC suggested that it would be the role of the CAA to handle the eventuality of BA creating unfair competition by offering SWA slots at Gatwick.

The advantages of setting up a hub and spoke regional airport system based at Brussels' Zaventem airport would be considerable, according to the MMC report.

SWA plans to link the majority of European provincial cities with a population of more than 500,000 inhabitants by 1995. The company hopes to operate three flights a day from the Zaventem hub to destinations less than two hours from Brussels, and twice daily operations to more distant points. This would mean connections would be created between some 2,000 city pairs, presently with non-existent or inadequate services.

According to BA, the additional use of regional airports would reduce passenger traffic growth at Heathrow by about 5 per cent by 1994.

The report also concluded that the proposed long-haul operations between the three airlines should increase choice of services and provide extra services to inter-continental destinations for UK residents, particularly for passengers wanting to travel from regional airports such as Manchester Glasgow and Edinburgh.

SWA plans setting up flights from Brussels to Los Angeles and Toronto via Manchester, for example.

It was noted by the MMC that the European Commission was examining the creation of SWA, in which BA and KLM have each taken a 20 per cent stake with the remaining 60 per cent held by Sabena. The report said that any changes imposed by the European Commission could not be foreseen at this stage and that it would not be useful to speculate on them.

Aegis rises 58% to £34.6m in six months

By David Churchill

AEGIS, the media buying, marketing and communications group, yesterday celebrated its first set of interim results since changing its name from the WCRS Group earlier this year by announcing a 58 per cent growth in pre-tax profits to £34.6m for the six months ended 30 June 1990.

Following the change of accounting year, the comparison is with the unreported first six months of 1989 when pre-tax profit was £21.9m on turnover of £247.36m.

Turnover in the first half of 1990 was £704.67m.

Earnings per share are up 31 per cent at 17.51p (fully diluted) while the interim dividend is 2.75p. The last interim dividend of 1.65p was declared in March last year for an eight-month period ending December 1988.

The name change from WCRS to Aegis in March this year reflects the restructuring of the company from a full-service advertising agency based in the UK to a predominantly media-buying company spread across continental Europe.

Carat, Aegis's main operating subsidiary, is a leading player in Europe in media planning and buying. This involves researching and buying advertising media for advertisers and their agencies at the most effective rates.

Tony Andrews

Peter Scott: Carat agreement had begun to be implemented

Carat is benefiting from the growth of broadcast media throughout Europe, such as three new television stations in Spain, cable television expansion in West Germany, and the new European newspaper.

Mr Peter Scott, Aegis chairman and chief executive, said yesterday: "Our strategy for developing Carat is based on the belief that with the increased supply and complexity of media, particularly broadcast media, advertisers will need the services of media specialists to ensure cost effective use of their advertising budgets."

Carat is developing increasing links with Aegis subsidiary PNI, a sports sponsorship and events management group involved in developing soccer in the US and baseball to an international audience.

Mr Scott added that the agreement reached late last year for Carat to act as the media planner and buyer for the Eurocom agencies in Europe had begun to be implemented with the exception of France, where Government approval is awaited. A decision is expected in September.

Aegis is still pressing ahead with plans for a listing on the Paris stock market and hopes to have a clear indication of the listing date by the autumn.

As part of its policy of reducing debt levels, the company has sold an office building in Paris for £11m.

Mr Robin Wight and Mr Andrew Rutherford, two of the founding directors of WCRS, have resigned from the board along with two others: Mr George Magan and Mr Simon Olswang.

● COMMENT

The transformation of the old WCRS advertising agency into a pan-European media planning and buying group has won the approval of analysts who a year ago were uncertain about the direction the company was headed. Media buying, however, may still be novel enough to capture the interest of investors searching for a glamour stock from a sector which is looking distinctly bearish in the face of the down-turn in the UK's consumer spending. Aegis's great strength, of course, is the fact that some 90 per cent of its activity is in continental Europe where advertising is still relatively immature and economic growth rates generally higher than in the UK. Its problem now is that competition, especially in the important French market, from other media buyers may put a brake on some of its profitable growth. The City remains bullish about the group's immediate prospects and is looking for about £70m from the full-year, giving a prospective p/e at yesterday's closing price of 274p (up 2p on the day) of just under 9.

Murray Smaller assets static

Murray Smaller Markets Trust reported net asset value of 282.4p at May 31, against 251.9p a year earlier, but little changed on the 282.89p at the end of November.

In the year to the end of May, net revenue was £2.04m (£1.89m) for earnings per share of 3.61p (3.34p). There is a final of 2.2p for a total of 3.3p (2.65p).

NEWS DIGEST

Northamber falls 38% to £3.8m

NORTHAMBER, the supplier of computers, computer printers and peripheral products, has reported the first decline in its full-year profits since it was founded in 1980.

Taxable profits fell 38 per cent to £3.81m (£6.16m) in the 12 months to April 30; in the first half profits declined 21 per cent to £2.15m (£2.72m). However, turnover in the year advanced from £101.95m to £110.04m.

Mr David Phillips, chairman, said that, despite a rise in unit volumes, prices had remained under considerable pressure. He added that, apart from the large corporate budgets, market conditions had become progressively more difficult and that the second half and, in particular, the spring – which traditionally produced the industry's major contribution to profitability – had been hit by last October's base rate increase.

After tax of £1.33m (£2.17m), earnings tumbled to 13.9p (22.9p).

However the proposed annual dividend is lifted 25 per cent to 2.5p (2p), reflecting, the company said, the strength of the balance sheet and the board's confidence in the future.

Bimec makes triple purchase for £5.2m

Bimec Industries, the USM-quoted pollution control and treatment group, has announced the acquisition of three complementary businesses for an aggregate consideration of £5.2m to be satisfied by a mixture of cash, loan notes and new ordinary shares in Bimec.

The business and assets of Cornercroft will be acquired for an initial £2.15m in cash and £1m in new ordinary shares and will be integrated with Bimec's aerospace technology division; while Eta Process Plant and Talbotbest will be absorbed into the pollution control and environmental building services respectively.

Kleinwort Benson has agreed on behalf of the vendors of Eta to purchase or procure purchasers for 2.4m new ordinary Bimec shares at 60p, and on behalf of Bimec a further 3.1m ordinary shares also at 60p.

Bimec, which saw taxable profits rise to £2.77m (£704,000) in the year to March 31, is planning to join the main market in the near future.

Slight increase in Hotspur Invs' nav

The net asset value of Hotspur Investments, known until May 2 as The British Kidney Patient Association Investment Trust, stood at 310p at June 30, a fractional increase over the 307.8p reported at the corresponding date last time.

The company, which in April accepted the offer by the trustees of the 7th Duke of Northumberland's Will Trust, had net revenue of £55,202 (£42,313) or earnings of 8.93p (6.85p). There is no interim dividend (4p), though a special of 10p was paid in April.

Interest charges hit Dares Estates

More than doubled interest charges took a large slice out of profits of Dares Estates and as a result, pre-tax figures of this property investment and development group fell over 34 per cent from £5.58m to £3.66m in the six months to June 30 1990.

With after-tax earnings per share down from 1.24p to 1.02p, the interim dividend has been halved to 0.25p (0.5p).

Interest payments jumped from £2.1m to £4.31m. The directors said yesterday they could see little prospects of an early improvement in the property market until interest rates fell or stabilised.

In the meantime, they did not intend to embark upon any new developments and would concentrate on maintaining the group's financial stability. While the level of rental income was continuing to increase, they said overall profits for the year were dependent upon realisations, the timing of which could not be reliably projected.

An extraordinary charge of £887,000 this time, related to discontinued residential developments.

Greenwich Res loss clipped to £819,000

Although operating income at Greenwich Resources fell substantially, the gold and precious stones mining group was able to cut pre-tax loss from £911,000 to £819,000 in the six months ended March 31 1990.

Operating income fell to £89,000 (£424,000). The contribution from United Goldfields, the Australian subsidiary, was halved to £203,000 because of processing lower grade material and stripping operations to access new higher grade reserves at the Paddington mine.

Full benefit of the higher grade ore was not available for two months, but production is now back to normal.

However, interest received surged to £361,000 (£73,000) while amortisation of mineral properties of £532,000 this time was offset by there being no reorganisation costs, against £560,000.

In Venezuela the pilot-processing plant's treatment rate had increased steadily, with gold production rising from 1kg to 3kg per month. Sales of the gold made an important contribution to exploration costs.

Loss per share for the half year was 2.5p (2.9p).

Trading up to £0.4m at Brit Bloodstock

British Bloodstock Agency made a pre-tax profit of £352,000 in the year ended March 31 1990, which all came from trading.

It compared with £450,000 last time. That included exceptional items and only £80,000 as trading profit.

Mr Michael Wates, chairman, said considerable progress was made in reducing the cost base which must "stand us in good stead" for the future. Moreover, £82,000 of non-recurring expenditure was absorbed, which related to the closure of the stud and the move from London to Lambourn.

The group increased commission earned on bloodstock transactions by 18 per cent, in spite of their being no significant growth in worldwide bloodstock values.

BBA Insurance Services exceeded expectations in its first full year's trading.

Gross revenue, representing the amount invoiced to clients for bloodstock sales and other agency services, rose 32 per cent to £62.72m (£47.6m), while turnover, being commissions and fees on services provided, increased 21 per cent to £6.12m (£5.07m).

Earnings per share were 8.1p (10.1p), and the final dividend is 6.3p for an unchanged total of 8.8p.

Hunter Saphir pulls out of St Albans

Hunter Saphir is selling its contract distribution business of Hunter Distribution at St Albans, Herts, for £8.45m cash to Northern Foods, and will use the proceeds to reduce borrowings.

Following the recent sale of the Northfleet contract distribution business, the latest disposal represents the final step in the withdrawal from the increasingly specialist business of third party contract distribution.

The Hunter Saphir group strategy is to focus on three areas of activity – fresh produce, herbs and spices, and speciality food manufacturing. The sale is subject to shareholders approval at a forthcoming EGM.

On current trading, the directors said the group turnover and operating profit were ahead of plan.

Broadcast Comms slips to £335,000

Broadcast Communications made a pre-tax profit of £335,000 for the nine months ended March 31 1990, compared with £454,000 in the previous full year.

The profit was after £31,000 compensation paid to former directors and associated legal costs. Last September, the Guardian and Manchester Evening News increased its stake to over 90 per cent of the capital.

Turnover for the period was £4.38m (£5.05m). The profit split showed corporation communications services £125,000 (£107,000) and TV programming £210,000 (£347,000). Earnings were 6.6p (8.8p).

The company has acquired Hawkshead, an independent TV production company, for an initial £450,000 – £430,000 in cash and £20,000 loan notes.

PUBLIC WORKS LOAN BOARD RATES

Effective July 25

Years	Quota loans repaid by EPI†	Quota loans repaid At††	Quota loans repaid at maturity§	Non-quota loans A* repaid by EPI†	Non-quota loans A* repaid At††	Non-quota loans A* repaid at maturity§
1			13 5/8			14 3/8
Over 1 up to 2	13 3/8	13 3/8	12 7/8	14 3/8	14 3/8	13 5/8
Over 2 up to 3	13	13	12 3/8	14	14	13 1/8
Over 3 up to 4	12 3/4	12 5/8	12 1/8	13 3/4	13 5/8	12 7/8
Over 4 up to 5	12 1/2	12 3/8	12 1/8	13 1/2	13 3/8	12 7/8
Over 5 up to 6	12 3/8	12 1/4	12	12 7/8	12 3/4	12 1/2
Over 6 up to 7	12 1/4	12 1/8	12	12 3/4	12 5/8	12 1/2
Over 7 up to 8	12 1/8	12 1/8	12	12 5/8	12 5/8	12 1/2
Over 8 up to 9	12 1/8	12	12	12 5/8	12 1/2	12 1/2
Over 9 up to 10	12 1/8	12	11 7/8	12 5/8	12 1/2	12 3/8
Over 10 up to 15	12	11 7/8	11 3/8	12 1/2	12 3/8	11 7/8
Over 15 up to 25	11 1/2	11 1/8	11	12	11 5/8	11 1/2
Over 25	11 1/8	11	11	11 5/8	11 1/2	11 1/2

*Non-quota loans B are 1 per cent higher in each case than non-quota loans A. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

Lasmo lifts net profit 17% on flat oil prices

By Clare Pearson

LASMO, the independent oil company, yesterday reported profits after tax up 17 per cent, from £27.6m to £32.4m, in the first half of 1990.

The announcement came as intensified tension between Opec producers Iraq and Kuwait provided a boost for the oil sector. Lasmo's shares at one stage topped 450p but closed 3p down at 445p.

Mr Chris Greentree, chief executive, said the first-half profits uplift was achieved on roughly flat oil prices, with the Brent oil marker price averaging about $17.73 per barrel.

However, he was looking for a rising trend in the price during the second half. It could average about $19.5 during 1991, he said.

The first half result was generated on turnover of £151m (£112m). Earnings were 8.2p (7.5p) and the interim dividend is being increased by 10 per cent to 2.2p (2p).

The company said it was confident of meeting its self-set target of doubling 1989 production levels, 71,800 barrels equivalent per day, within the next five years. During the first half it achieved 81,700 boepd.

Capital expenditure was expected to double this year from 1989's £142m. During the first half, Lasmo spent £46.7m (£29.7m) on exploration and appraisal and £62.3m (£27.3m) on production and development.

Lasmo also made a big acquisition last year when it paid £358m for Thomson North Sea. During the first half it spent only £10m on acquisitions, most of which was attributable to Home Oil Company, comprising assets in six countries.

Cashflow from operations after tax stood at £74m, against £41m. Reflecting expenditure mainly on the North Sea assets, net indebtedness had risen from £14m at the end of 1989 to £53m currently. But gearing stood at only 6 per cent of shareholders' funds.

Lasmo participated in 103 wells during the first half, of which 32 wells were operated by itself.

Net interest receivable stood at £14.5m (£13.4m). This reflected a higher return on some sterling floating rate loan notes which Lasmo received in return for the 25 per cent stake in Enterprise Oil, which it sold to Elf Aquitaine at the end of 1988. Almost all borrowings are dollar-denominated.

See Lex

Tony Andrews

Chris Greentree: profits achieved on flat oil prices

Sotheby's sales exceed £3bn in 1989-90 season

By Andrew Bolger

SOTHEBY'S HOLDINGS, the international auction house, said yesterday that auction sales for the 1989-1990 season totalled $3.2bn, an increase of 39 per cent over the previous year.

The figures relate to the traditional art auction market reporting period from September 1989 to August 1990. Reported in pounds sterling, sales increased by 45 per cent to £1.96bn.

Mr Michael Ainslie, president and chief executive, said: "The season saw record sales in collecting categories as diverse as books and manuscripts, photographs, tribal art, pre-Colombian art, antiquities, Latin American paintings and American folk art.

"In the impressionist and modernist field we saw continued growth, capped by the $286m (£170m) evening sale in New York on May 17 – a record total for any art auction and more than the total sales for this department in America during calendar 1987."

Mr Ainslie said Sotheby's auctioned 367 works worldwide for over $1m, significantly more than 258 works which sold for over $1m in 1988-89. Fifty-six works sold for over $5m each, nineteen works brought over $10m and five over $20m.

He added: "In reviewing the sales results this spring, we have seen that in virtually all areas, works that were fresh to the market and were properly estimated sold well, while those that did not meet these standards faced greater resistance than in recent seasons.

Maxwell shadow still dogs De La Rue

By Andrew Bolger

DE LA RUE, the banknote printer, continues to be dogged by the shadow of its biggest shareholder, the publisher Mr Robert Maxwell, who owns or controls 27 per cent of the group.

De La Rue withdrew a special resolution at its annual meeting yesterday which would have authorised directors to issue new shares, after Mr Maxwell said in a letter that he would oppose the move.

Mr Peter Orchard, chairman of De La Rue, said Mr Maxwell's letter had informed him just before the meeting started that he would oppose the special resolution as a mark of displeasure at his lack of representation on the board of De La Rue.

De La Rue was last year the target of a hostile bid from Norton Opax, the specialist print and packaging group. The bid was withdrawn after Bowater Industries mounted and won a bid for Norton.

To general applause, Mr Orchard said De La Rue had no intention of granting Mr Maxwell a seat on the board. He said the company opposed any one group of shareholders being represented on the board, as this could lead to conflicts of interest.

Mr Orchard said this had been illustrated last year when Mr Maxwell had opposed the £235m sale of Crosfield, De La Rue's electronics printing group, to Du Pont and Fiji. Mr Maxwell had favoured selling Crosfield to Scitex, an Israeli-based company, 27 per cent of which is owned by Mr Maxwell's Mirror Group Newspapers.

Mr Jeremy Marshall, De La Rue's chief executive, described the failure to have the resolution passed as a minor irritant and said Mr Maxwell's presence was not proving an obstacle to the smooth running of the business.

Last night Mr Maxwell said: "I challenge Mr Orchard to prove there is any conflict of interest which prevents this major shareholder from contributing to the board's deliberations on the conduct of business for the benefit of all shareholders."

Mr Maxwell said that since Mr Orchard had made part of the letter public he would release the full text, in which he said he was dissatisfied with both the management and financial performance of De La Rue.

The letter states: "The Scitex acquisition of Crosfield was rejected, yet that company continues to go from strength to strength (its shares have moved from $11.50 to $41.50). I pointed out to you that, had the management been in touch when you felt that the Kenyan Government contract was in danger, we may have been able to save it, given our close connections in that country through the Kenya Times which we publish with the governing party as our partner."

Mr Maxwell had suggested that his son, Kevin, should join the board.

Mr Marshall said the De La Rue was trading well after deciding to focus on its core bank-note activities, which involved disposing of high-technology subsidiaries and slashing staff numbers.

FKB Group receivers expect to sell agencies as going concerns

By Philip Rawstorne

FKB Group, the holding company of a group of sales promotion and direct marketing agencies, yesterday went into receivership.

However, joint administrative receivers, Mr Tim Hayward and Mr Phil Wallace, of KPMG Peat Marwick McLintock, said they had "every confidence" that most of the agencies would be sold as going concerns.

Shares in the group, which had a turnover last year of £100m and employs about 1,000 people in more than 40 subsidiaries, were suspended in April at 118p compared with a peak of 380p in mid-1987. At the time the shares were suspended the group had a market capitalisation of £32m.

The company ran into difficulties over deferred payments for recent US acquisitions as the marketing services sector slumped. It now has debts of around £27m.

FKB's banks agreed to support it only for as long as there was a reasonable prospect of refinancing, and the company has been searching unsuccessfully during the past few weeks for an external investor prepared to provide new capital. It is believed to have been in discussions with Carlson, the US marketing services group.

Mr Hayward stressed last night that the receivership only directly affected FKB Group and two non-trading subsidiaries, FKB Holdings and Palstow Ltd.

He added: "Almost all the rest of the FKB subsidiaries, including FKB London, are very healthy, profitable businesses whose greatest assets are their talented workforces. Interest has already been shown in acquiring most companies and I have every confidence that these will be sold quickly as going concerns with few jobs being under threat."

Bid aftermath and distribution problems take toll on Budgens

By John Thornhill

BUDGENS, the food retailing group, yesterday reported a "most disappointing" set of annual results and warned that it would achieve only minimal profit in the first half of the current year.

The market had previously been warned of Budgens' trading difficulties, but its shares still slid 5p yesterday to 55p.

In the year to April 28, Budgens recorded pre-tax profits of £11.83m, compared with £16.42m in the previous 70 weeks. But the figure contained a series of exceptional items and provisions confusing the overall picture.

Profits from the disposal of properties and 51 stores resulted in a surplus of £13.34m being taken above the line. This was partly offset however, by an exceptional reorganisation provision of £4.28m and exceptional distribution costs of £4.41m.

Operating profits were £12.42m (£18.55m) while turnover declined to £291.89m (£381.48m).

Two main problems struck Budgens during the year.

First, the company suffered disruption in the aftermath of an aborted bid from William Low, a fellow retailing group. This led to trading uncertainties and a high turnover of staff but Mr John Fletcher, chairman and chief executive, said management had now been bolstered. "We have a much stronger management team that is moving the business along."

Second, problems with Budgens' distribution network resulted both in excessive costs and reduced sales. High costs are continuing to affect the business and Mr Fletcher said it would take some time to recover lost sales. "We see a very difficult first half but a distinct improvement in the second," he said.

Despite the difficulties, Mr Fletcher claimed Budgens still had a viable future as an independent retailer. "We have a good property portfolio, we have increased net assets, we have some good stores, and so we have a sensible and attractive business."

A final dividend of 3p has been proposed which will bring total payments to 5p (6.67p). Earnings per share worked out at 10.78p (14.02p).

● COMMENT

This set of figures from Budgens had analysts scratching their heads and scrambling for their calculators. Some suggested that "clean" profits amounted to £2.7m but others differed on their treatment of accounting policies and argued that the company had in fact shown a deficit of about £1.5m.

Either way it was bad news and the accompanying trading statement darkened the gloom. Suggestions that the company would only start moving forward again in the second half alarmed some and estimates for annual pre-tax profits came in around the £3m-£5m range.

With projected earnings per share of only 3p, Budgens' share price still looks out of line with this year's fundamentals unless the strong yield can be maintained – a matter of some doubt.

Sir Ron Brierley's 14.1 per cent holding provides shareholders with some solace, as does the knowledge that the much-strengthened management team seems to be moving the business in the right direction. But faithful shareholders will have to remain patient until any uplift feeds through in 1992.

Warning from Misys as new companies provide growth

By Maggie Urry

MISYS, the computer systems and services group, warned yesterday of tough trading conditions as its customers were being affected by high interest rates and lack of demand in the economy.

Companies are cutting back on investment in information technology, said Mr Kevin Lomax, chairman.

He said it was too early to say when demand might pick up and that the immediate outlook was for further deterioration. He expected the interim results to reflect lower levels of activity.

The group's shares, which have already fallen sharply in recent months, dipped 5p to 175p.

They have been traded on the USM since March 1987, and are moving to a full listing in September.

The warning came with results for the year to end May, which showed a trebling of turnover to £76.7m (£25.4m), a doubling of pre-tax profits to £11.1m (£5.6m) and a 3 per cent rise in earnings per share to 23.5p (22.8p). Previous years figures have been restated reflecting a change in accounting policy.

Last summer the group made four acquisitions at a total cost of £50.3m, issuing 12m shares at prices above 400p and spending £1.6m in cash.

Mr Lomax said these deals were responsible for virtually all the growth in the group's profits.

Four of the group's 14 operations suffered particularly, accounting, Mr Lomax said, for the shortfall in earnings growth against expectations a year ago of increases of perhaps 35 or 40 per cent.

Misys Dataller, selling software packages to the insurance industry, saw a fall in new business sales and profits were slightly down, Mr Lomax said. TIS Applications, part of the TIS business bought in June last year, "fell well short of profit targets" and was being restructured. BOS, which sells software to businesses, had a "relatively disappointing year", Mr Lomax said, because of a tight market for accounting software.

Mentor, also acquired in June last year, which sells to the construction industry, saw profits "significantly short of original expectations," as it took longer than planned to rebuild the sales and marketing team.

Mr Lomax said the group had cash at the year end of £3.65m and cashflow was strong. He said the long term outlook was for growth in the information technology market.

A final dividend of 3.12p is proposed to give a total of 5.28p (4.8p).

See Lex

RTZ breaks from origins

By Tom Burns in Madrid

RTZ is to cut loose from its origins, with an agreement in principle to sell its 49 per cent stake in a mining venture called Rio Tinto Minera (RTM) in the south western Spanish province of Huelva that provided the UK corporation with its first commercial success and its name.

RTZ's share will be acquired by its partner in the venture, the Spanish fertiliser and chemical company Ercros, which incorporates Explosivos Rio Tinto (ERT), a company that started life as an offshoot of the British multinational.

Ercros chairman Mr Javier Vega de Seoane said yesterday that a "just price" would be paid for the acquisition and refused to confirm press reports that the deal had netted RTZ some Pta 10bn (£5.55m). In London, RTZ said the price was confidential but not material in terms of its turnover or assets.

Mr Vega de Seoane said RTM's chief asset was its copper smelter, sited in the town of Huelva, which is the second biggest in Europe after one managed by Metallgesellschaft AG. Under the acquisition agreement RTZ will continue to use RTM's smelter.

RTZ began to lose interest in RTM as its copper mines, sited in the hills behind Huelva, ceased to be viable due to rising labour costs and the low quality of the Rio Tinto mineral. The company incurred heavy losses midway through the 1980's and was involved in a prolonged strike in 1986.

Assoc Fresh Foods for market

By Clay Harris, Consumer Industries Editor

Associated Fresh Foods, the milk and dairy products supplier which was the subject of a £65m management buy-out from Asda in 1987, plans to come to the stock market next year.

AFF yesterday reported a 9 per cent increase in pre-tax profits to £3.6m (£3.3m) for the year to April 28. Turnover advanced by 15 per cent to £164.4m (£143.4m).

The Leeds-based company includes Associated Dairies, a supplier of fresh milk to 650,000 households in the north of England and to retail outlets throughout the country, and Cravendale Foods, a distributor of dairy and food products.

AFF's current plan is to seek a listing in 1991, although other means of realising part of shareholders' investments – such as a trade sale – have not been excluded. The company is advised by Lazard Brothers.

UK COMPANY NEWS

Eve falls 36% after last time's property sale

By Andrew Taylor, Construction Correspondent

THE SALE by Eve Group, the USM-quoted contractor and developer, of a housing development site at Dorking, Surrey, for £8m in July 1988 could not have been better timed. Since the sale, which produced profits of about £4m, housing and commercial property markets has gone into sharp decline.

The disposal has had an uneven effect on pre-tax profits which after rising sharply in 1988, due to the Dorking proceeds, fell by 36 per cent from £7.23m to £4.62m during the 12 months to the end of March.

Mr Roger Ames, chairman, said that in the current climate the group had been unable to match the previous year's property development profit which had been exceptionally well timed "either by luck or judgement".

The rest of the group's business had continued to perform well, he said. Contracting profits, led by the group's transmission business (constructing and erecting pylons for the electricity and broadcasting industries), rose by 38 per cent to £3.25m (£2.35m).

Profits from Trakway, the aluminium roadway used on building sites and at major events like pop concerts, rose by more than half from £510,000 to £804,000.

The prospects for Trakway and for transmission, an area where the electricity supply industry is expected to spend heavily during the next few years, are looking good, according to Mr Ames.

The group recently won a trial contract to supply Trakway to Japan and is talking to a possible West German joint venture partner. Trakway already has a French joint venture partner.

The outlook for construction and property development looked to be more difficult, said Mr Ames. The property division last year moved from £4.4m profit to a £23,000 loss.

Overall, group turnover rose from £49.47m to £56.58m. Earnings per share slipped from 51p to 31.4p due to the big fall in property profits.

A final dividend of 6p (5p) has been proposed, making a total of 8.5p. Total dividends last year were 17p but this included a special one-off dividend of 10p to take account of sale of the Dorking housing site.

Analysts expect profits for the current year to be either about the same or slightly higher than last year.

COMPANY NEWS IN BRIEF

ALUMASC is selling assets employed in the manufacture of stainless steel extractor and coupling heads for dispensing draught beer for £1.4m cash.

BICC says the 49.82m convertible capital bonds not taken up by the rights issue have been sold at a premium.

BRUNNING GROUP is to sell its subsidiary, Circular Distributor, to a management group led by Mr Peter Morgan, a Brunning director and managing director of Circular. Consideration was £1.1m in cash and proceeds will be used to further reduce overdraft.

CAPE has acquired the assets and business of Capel SA of France for FF2.5m cash (£250,000). Capel provides industrial thermal insulation services to the power, petrochemical and shipbuilding industries.

CITY OF LONDON PR GROUP expects "somewhat lower" pre-tax profits this year than the £911,105 for the year ended March 31 1990, but directors intend to recommend a 10 per cent increase in the total dividend to 3.09p (2.81p). Mr John Greenhalgh, chairman, told agm that new trading year had begun slightly down, with slippage in first quarter profits still continuing. However, this should begin to stabilise, enabling company to start some rebuilding in second half.

FUTURA HOLDINGS has sold 580,000 shares (10.3 per cent) of Lambert Howarth at 196p each. With the sale of 50,000 previously announced, proceeds amounted to some £1.2m and will reduce group borrowings by over 24 per cent.

GRAND CENTRAL Investment has taken a further step in the reorganisation of its businesses in Malaysia and Singapore. It has agreed that Prudential Asset Management Asia invest $11m (£3.4m) cash in buying a 19.8 per cent shareholding in GCIH Singapore, the wholly-owned subsidiary.

NORTHUMBRIAN Fine Foods: rights taken up in respect of 1.52m ordinary (72.04 per cent of issue).

RATNERS GROUP says over 89 per cent of the recent loan stock rights issue was taken up.

REGAL HOTEL Group, quoted on the USM, has contracted for the sale of the 48 bedroom Queen's Hotel at Barnsley to Periquito Hotels for £1.66m in cash.

REF GROUP is in talks which might lead to a management buy-out of the heating and engineering division.

ROSS GROUP has bought Cotswold Enterprises, a maker of pallets, for £265,000 financed by the issue of unquoted loan notes.

SAFELAND is raising about £400,000, net of expenses, by a placing of 1m new ordinary 5p shares at 42p each. Net proceeds will be applied towards financing the £635,000 purchase of 142/144 Great North Way, London NW. The balance will be funded from existing bank facilities.

SIMON ENGINEERING has bought Wastewater Treatment Systems of Santa Clara, California for an initial $2.5m (£1.37m) and further profit-related payments. Unaudited results for the 11 months to the end of May showed pre-tax profits of $432,000 on turnover of $3m. Net assets at May 31 were $443,000.

ST IVES, the printing and packaging group, plans to build a 140,000 sq ft factory at a cost of £25m to replace its plant at St Austell. The new plant at Roche, near St Austell, will include robotic paper handling and will be ready in two to three years. The group has already set up modern magazine production plants at Plymouth and Peterborough.

TIPHOOK has sold Tiphook Siteguard, an asset rental company, to Darchem Building Services for £2.9m.

WALKER GREENBANK is disposing of six businesses to their respective managements for a total £3.1m in cash.

WESTMINSTER AND Country Properties is expanding in France with the acquisition for £800,000 of a site near Paris for a hotel and the negotiation of the right to buy 450 acres near Montpellier in southern France with outline planning permission for a hotel, golf and residential development and a science park.

WILKES (JAMES) is selling five acres of property surplus to requirements of Peter Stub's wire drawing activity in Warrington. Proceeds of £2.15m will be used to reduce group borrowings.

YOUNG GROUP has completed the acquisition of the coal interests of Ferrum Holdings for £250,000, payable by the issue of 170,068 ordinary 10p shares.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Aegis Group	int	2.75†	Oct 10	-	-	2.5‡
Ckres Estates	int	0.25	-	0.5	-	1.5
Eve Group §	fin	6	-	5	8.5	17‡
Budgens	fin	3	Jan 4	2.67	5	5.67
Hepworth	int	5.5	Nov 5	5.15	-	13.85
Hitepur Invs	int	nil◆	-	4	-	12.5
[illegible]	int	2.2	Oct 4	2*	-	7.5*
Mays §	fin	3.12	Oct 3	3	5.28	4.8
Northamber	fin	2.5	-	2	2.5	2
Savills	fin	2.625	Sept 17	2.625	3.75	3.75
SIP Industrial §	int	0.44	Aug 28	0.4	-	1
Worthington (AJ)	fin	0.625	Aug 16	0.5	0.625	0.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡For six months period. ‡Includes special dividend of 10p. ◆A special dividend of 10p was paid in April. ‡For 70 weeks period.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims- Allied Textile, Continental Assets Trust, Derby Trust, Green Property, Hill & Smith, ICI, Jacobs (John I), Norsk Hydro, Owners Abroad, Sphere Inv, Yeoman Inv.

Finals- Bertie (Hldgs), Douglas (Robert M), Dyson (J & J), Independent Inv, Jacques Vert, Moorleigh, Pledgeum, Smith (David S), Southend Property, Trevian.

FUTURE DATES

Interims-

AMS Industries	Aug. 3
Ayrshire Metal Products	Aug. 10
BICC	Aug. 21
Edinburgh Oil & Gas	Aug. 6
Gold Fields Property	Aug. 8
Sedgwick	Sep. 4
Ultramar	Aug. 8
Vogelstruisbult Metal	Aug. 2

Finals-

Alpha Estates	Aug. 29
Gold Fields South Africa	Aug. 22
Heath (Samuel)	Aug. 1
New Win	Aug. 7

COMMODITIES AND AGRICULTURE

Opec heads towards price increase

By Steven Butler in Geneva

OPEC WAS last night heading towards an agreement that would lift its reference price to $20 a barrel or more.

The move to raise the price above the current $18 a barrel follows a strident call by Iraq for the Organisation of Petroleum Exporting Countries to raise the reference level to $25 a barrel and threats against fellow Opec members Kuwait and the United Arab Emirates, both of which have consistently ignored their production quota limits.

Opec oil prices were just $14 a barrel during June and are about $17.50 today.

"It is my understanding that everybody is agreed to $20," said Mr Gholamreza Aghazadeh, the Iranian Minister, at the meeting in Geneva. However he said that some countries wanted to lift prices even higher.

Mr Hisham Nazer, the Saudi Minister, said he would support an increase in the reference price, although he did not say where it should be set. The Saudis are understood to be attempting to fashion a compromise position to bridge the gap between the price hawks, Iraq and Libya, and the more moderate Opec members.

Iraq was understood to be uncompromising in its call for $25 oil. This figure is much higher than most other Opec members will accept and Mr Rasheed Salem al-Ameeri, the Kuwaiti Minister, called it "unreasonable."

Lifting of the reference price is unlikely to have any immediate impact on the market, where prices are determined on the basis of perceptions of supply and demand. However, a high reference price could condition future debate within Opec over whether or not to lift the Opec production ceiling.

A consensus has been reached to set the ceiling at 22.5m b/d coming out of the meeting, but some members would like to see this lifted in the fourth quarter if market conditions warrant it.

Dr Subroto, the Opec secretary general, said that the call on current Opec oil production plus stocks would average 23m b/d in the second half of the year, rising from 21.78m b/d in the second quarter to 24.43m b/d in the fourth quarter. Opec would have to restrict production to just 22m b/d in order to eliminate a 184m barrel stock build which occured in the first half of the year. Production at 22.5m b/d would eliminate half of the stock overhang, he said.

Mexico applauds Iraq's belligerence

Richard Johns studies the problems of the state oil monopoly

MEXICO IS watching the outcome of this week's Opec conference in Geneva with at least as much anxiety as any other non-member oil producer.

It is greatly encouraged, though, by the belligerent stance taken by President Saddam Hussein of Iraq in confronting Kuwait and the United Arab Emirates, the two member states mainly responsible for undermining the market over the past four years.

"He is has become something of a folk hero amongst us," said a senior executive of Petroleos Mexicanos (Pemex), the state oil monopoly.

Officially though, the bureaucratic monster, which is undergoing a radical restructuring, has no comment on the Geneva talks. Nor does the Ministry of External Relations.

During the first five months of this year Mexico's foreign exchange earnings from oil exports dropped by nearly 13.8 per cent to about $2.6bn, compared with just over $3bn in the corresponding period of 1989, while the average export price fell from $15.32 a barrel to $14.20. That was well above the $13 a barrel conservatively projected in the state's budgetary estimates, but in June the price dropped further.

According to preliminary figures from Pemex, Isthmus, the country's main light crude, which is exported to the US market, fetched $13.61 a barrel while Maya, a heavy crude, went for $9.50 and Olmeca for $14.93, giving a weighted average of $12.12 a barrel. Monthly earnings dropped to $408m from nearly $460m for May despite higher exports of 1.23m b/d compared with 1.20 b/d in the previous month.

During the period in question the proportion of Maya crude in Pemex's exports increased from 59.4 per cent to 64.7 per cent, according to published reports, as Pemex tried to make good the country's gasoline deficit. And no less than 60 per cent of June exports were understood to have gone to the US, rather than the 50 per cent traditionally set as the desirable limit.

Having been totally wedded to contractual agreements Pemex has experimented with sales of its Maya crude on a spot market basis to the west coast of the US.

Refining capacity has been boosted to cater for domestic demand for gasoline, as well as heavy fuel oil. The deficit last year put the merchandise trade account and current account into heavy deficit.

The Government and Pemex still nurse painful memories of the 1986 price fall. That was when the "greedy bedou" – as one Government official described the Arabian Gulf producers – led by Kuwait, with the support of of the United Arab Emirates, coupled with the more ambivalent policy pursued by Saudi Arabia (aimed at asserting the dominance of producers with the greatest hydrocarbon reserves over the market and Opec) forced Mexico's per barrel revenue down to $11.60, precipitating yet another financial and debt crisis.

Mexico's difficulties are compounded by the fact that, despite a flexible spot market-related pricing mechanism, it is unable to increase exports in the face of steeply rising domestic demand and an inability to increase output because of low investment over the past decade.

Pemex has been milked dry to satisfy to the voracious demands of the Treasury. In addition it has suffered from lack of organisational competence and, until the arrest of Joaquin Hernandez Galicia the petroleum workers' allegedly corrupt leader, a stultifying union stranglehold.

Mexico may boast that it has switched from two-thirds dependency on oil exports to one-third since 1982. But even so, foreign exchange earnings from crude sales remain vital to the country's balance of payments as well as state revenue.

Not being a member of Opec, Mexico has been forced to look on from the sidelines since the "bedou greed" of 1986 put an end to attempts by the cartel's poorer, more populated members, notably Indonesia and Venezuela, to encourage non-members to restrain world oil output and boost prices.

It will be watching the game in Geneva with more than usual interest.

EC seeks reduction in farm chemicals

By David Buchan in Brussels

THE EUROPEAN Commission yesterday proposed new measures to encourage farmers to use less fertiliser and pesticides in the interest of reducing agricultural pollution, in addition to a Ecu 400m (£280m) package for general rural development.

Mr Raymond McSharry, the EC agriculture commissioner, said existing schemes to reduce agricultural inputs had not worked very well, and therefore he proposed that:

- Up to Ecu 180 per hectare, depending on the reduction in output, should go to those farmers cutting down on inputs. In this way, Mr McSharry is opening up the possibility of the Commission helping to fund part of the costs that farmers are already incurring in meeting EC environmental rules.
- Up to Ecu 100 per hectare would be paid as a special top-up of the existing set-aside premium, to encourage farmers to increase the environmental condition of set-aside land.
- Up to Ecu 150 per hectare could be paid for the upkeep of abandoned land, so as to prevent soil erosion or fires.

Under the so-called Leader programme approved yesterday, Ecu 400m would be available up to the end of 1993 to help some 100 rural development agencies. These agencies would get an overall grant which they would use to promote training, rural tourism, and the marketing of local farm products.

- The Commission proposed that the existing EC sugar quotas scheme should be renewed for two years, but that Community payment of storage costs for one category of excess production should be removed.

At present, the sugar produced by EC farmers is divided into three categories: 'A' quota, which is roughly calculated on what individual member states consume; 'B' quota, which is destined either for elsewhere in the Community or for export; and 'C' quota, which is aimed for export but for which there is no export subsidy.

Mr Raymond McSharry, the EC farm commissioner, is now proposing that as from July next year, the Community should no longer reimburse farmers for the storage of C quota sugar. He said that with 1.3m tonnes of sugar coming into the Community (for refining and re-exporting) from African, Caribbean and Pacific countries under the Lomé Convention, and excess sugar production by the EC of some 1.2m tonnes a year, the Community was already having to put some 2.5m tonnes of sugar on the world market.

Soviet Union takes 'rightful place' in diamond cartel

By Kenneth Gooding, Mining Correspondent

AT 11.30 yesterday morning Mr Gary Ralfe, a director of De Beers, the world's biggest mining company, gave the go-ahead for a bankers draft for US$1bn to be handed over to the Soviet Union's precious metals and diamonds organisation, Glavalmazzoloto.

Minutes before, Mr Valerie Roudakov, head of Glavalmazzoloto, and Mr Nicholas Oppenheimer, chairman of De Beers' Central Selling Organisation (CSO), had signed the historic agreement which welcomed back the Soviet Union to the world's most successful cartel – the one which controls the market in rough (uncut) diamonds.

The $1bn is a commercial loan against future diamond deliveries. It will attract commercial rates of interest and the Soviet Union will ship its diamond stockpile from Moscow to the CSO in London as collateral.

Even so, "De Beers is doing more to help the Soviet Union solve its shortage of hard currency than any country," Mr Euan Worthington, head of S.G. Warburg's mining team, pointed out.

And we should expect more deals involving the Soviet Union swapping commodities – oil and gold for example – for hard cash because that avoided the complications of dealing in currencies, suggested Mr Andy Smith, analyst with UBS Phillips & Drew.

"This deal is manifestly in the interest of the Soviet Union which, as a major diamond producer, will be taking its rightful place at the CSO table," said De Beers' Mr Ralfe. "It will guarantee an assured, stable and predictable cash flow to the Soviet diamond industry and an inflow of foreign exchange for the Soviet Union."

The deal is also manifestly in the interest of De Beers and the CSO which markets more than 80 per cent of world's uncut diamonds. Since 1963, for political reasons, the Soviet Union has not dealt directly with the South African group but its stones have reached the CSO's London sorting tables via a complex and tortuous trail of intermediaries.

It is not coincidence that Glavalmazzoloto made its first approach to renew the formal agreement with the CSO in May. That was the month when De Beers split itself in two, putting its non-South African assets into a Swiss company. The Soviets have been negotiating with the new Swiss concern, De Beers Centenary.

Although the Soviet Union has always played the game to CSO rules – it did not disrupt the market during the severe recession in the early 1980s for example – there was always an outside chance that it might have been forced to dump diamonds as part of its desperate search for hard currency.

The potential for disruption was revealed yesterday when De Beers said it was moving the Soviet's stockpile of accumulated uncut diamonds from Moscow to London as collateral for the $1bn loan.

Now the Soviet Union is tied to an exclusive arrangement, worth about $5bn, to sell its rough diamonds through the CSO for the next five years. Apart from De Beers' own output, the CSO markets an annual $4bn of uncut diamonds from Australia, Botswana, Namibia, Tanzania and Zaire. No other cartel (De Beers prefers to describe it as "single channel marketing") can match the CSO's record. While other commodities and metals wildly fluctuate in price in response to economic conditions diamonds, with few exceptions, have moved upwards every year since the 1930s depression.

The Soviet Union's diamonds come from an area around the towns of Mirny and Udachny in north east Siberia where the climate is extremely hostile. In value terms it is the world's second-largest producer of rough diamonds, contributing, according to analysts' estimates, about 25 per cent of the CSO's stones compared with Botswana's 50 per cent.

Mr Ralfe admitted that, as the $1bn was intended to help speed up development of the already-efficient Soviet diamond industry, there was the potential for a rapid expansion of output. The diamond industry would cope, he suggested, "as long as the diamonds are marketed through the CSO."

And, if the market for gem diamonds progresses as De Beers expects, the Soviet stockpile will not go back to Moscow but will be sold over the next five years.

Rich pickings from Granny Smith

By Kevin Brown in Sydney

THE GRANNY Smith gold mine near Laverton in Western Australia is meeting hopes that it will be one of the largest and lowest cost gold mines in Australia, Delta Gold said yesterday.

Delta, which owns 40 per cent of Granny Smith, said the mine produced 63,391 ounces of gold in the three months to June, at an average cash cost of A$169 (US$132) an ounce, or A$186 including the cost of pre-stripping the adjacent Goanna pit.

Granny Smith, which was officially opened in May, is a co-venture with Placer Pacific, a subsidiary of Placer Dome of Canada.

Delta said the mine had exceeded all planned gold production and cost targets during the quarter "and is successfully established as one of the largest and lowest-cost gold mines in Australia."

The Goanna pit, where pre-stripping began in June, is expected to become a significant contributor of ore, the company said.

The joint venture partners have accelerated plans for a ball-mill and associated facilities at Granny Smith, Delta said. The two companies had planned to install a 2.9 megawatt ball-mill during 1992, but now intend to commission a 3.75 megawatt mill by mid 1991.

The larger mill will increase milling capacity from 3m tonnes per year to 4m tonnes for saprolite ore, and from 2.1m tonnes to 2.4m tonnes for fresh ore.

"This will result in a significant increase in annual gold production from mid-1991 onwards," Delta said.

The joint venture partners are also planning to begin an exploration drilling programme early next year to define additional gold resources and mineable ore reserves adjacent to the Granny Smith and nearby Windich deposits.

Delta said its QED mine at Kanowna, Western Australia, which is a 50 per cent joint venture with Peko Gold, had performed well in the quarter, recovering from earlier delays in reaching full production.

The mine produced 6,352 ounces of gold during the quarter at a cash operating cost of A$409 per ounce, compared with A$533 for the year. Cash operating costs were expected to fall to between A$380 and A$380 per ounce over the coming year as gold production from heap leaching stabilised at around 2,500 ounces a month.

Delta said that gold production at the four mines in which it has an interest in Australia and Zimbabwe totalled 29,515 ounces in the quarter, and 53,363 ounces for the year.

The company said it had outstanding gold forward sales contracts for around 270,000 ounces at prices well in excess of current gold prices. Unrealised gains on forward sales at June 30 amounted to approximately A$25m.

Australia to resume live sheep sales

By Kevin Brown

AUSTRALIA'S LIVE sheep trade with the Middle East is poised to resume after 12 months of uncertainty caused by the rejection of several shipments, mostly on health grounds. Mr Dick Austen, chairman of the Australian Meat and Livestock Corporation, told a farmers' conference in New South Wales that a live sheep shipment to Saudi Arabia was "imminent."

Mr Austen said stricter regulations being applied by the corporation "will give us a strong degree of confidence about the status of age and health in our export sheep."

The A$120m (£50m) a year live sheep trade between Australia and the Middle East was suspended last August after several shipments were rejected by Saudi Arabia on health grounds.

The trade was resumed in December, but four more shipments were rejected in April and May. No shipments have since been sent to Saudi Arabia, but a shipment of 21,000 sheep to Bahrain was rejected earlier this month after complaints about the disease scabby mouth.

Mr Austen said Australian producers "have not done much of a job of meeting the requirements of Saudi customers," and admitted the "very nasty situation" which had arisen would take some time to put right.

Saudi Arabia had developed high agricultural standards to which Australia had not responded quickly enough.

"For the last 12 months it has been a battle to get the whole thing changed so we can be responsive to real Saudi demands of quality and health," he said.

However, the farmers said they were disappointed by the corporation's handling of the live sheep problem, and called for a review of its structure and performance.

WORLD COMMODITIES PRICES

MARKET REPORT

GOLD prices moved through the resistance point of $372 a fine ounce yesterday on the London bullion market. The rally, spurred by Middle East unrest, firmer oil prices and predicted further easing of fiscal policy in the US, came after the morning fix of $367.40; chart trends now indicate a technical target of $375. "Gold currently looks very attractive if you compare one month interbank bullion rates of around 6.8 per cent with comparable interbank dollar rates of about 8 per cent," one dealer said. However, he added that the market needed to consolidate at these new levels before rising further. On the LME copper prices moved ahead on short covering. Three-month closed above £1,500 a tonne. Dealers said the covering may have partly reflected nervousness ahead of a possible strike by Minero Peru workers if a new labour contract could not be agreed by today. However, a rally in zinc prices based on Minero Peru fears ran out of steam – traders said any recent rise based on potential supply disruptions appeared to have lost momentum fairly quickly against a background of weakening demand. Nickel prices advanced on short covering after Tuesday's sell-off.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$16.95-7.05y	-0.15
Brent Blend	$19.35-9.45y	-0.175
W.T.I. (1 pm est)	$20.46-0.48y	-0.33

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$261-263	-1
Gas Oil	$175-176	
Heavy Fuel Oil	$75-77	-1
Naphtha	$162-164	-2
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$372.50	+3.5
Silver (per troy oz)♣	487c	
Platinum (per troy oz)	$481.25	+0.25
Palladium (per troy oz)	$117.35	-1.40
Aluminium (free market)	$1565	
Copper (US Producer)	126.0c	+1.5
Lead (US Producer)	50.0c	
Nickel (free market)	460c	-10
Tin (Kuala Lumpur market)	15.95r	-0.11
Tin (New York)	283c	-1
Zinc (US Prime Western)	87.5c	
Cattle (live weight)†	103.28p	-1.80*
Sheep (dead weight)†	132.55p	-17.6*
Pigs (live weight)†	81.47p	-7.05*
London daily sugar (raw)	$266.0z	+2.80
London daily sugar (white)	$363.5z	+3.00
Tate and Lyle export price	£268.5	+2.50
Barley (English feed)	£107.75	
Maize (US No. 3 yellow)	£159.0	+2.50
Wheat (US Dark Northern)	Unq.	
Rubber (Sep)♥	52.25p	+0.25
Rubber (Oct)♥	52.75p	+0.75
Rubber (KL RSS No 1 Aug)	234.0m	+0.50
Coconut oil (Philippines)§	$297z	
Palm Oil (Malaysian)§	$270	
Copra (Philippines)§	$195w	
Soyabeans (US)	£150.0	
Cotton "A" index	80.90c	
Wooltops (64s Super)	488p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Sep/Oct. t-Jul/Aug. u-Oct/Dec v-Jun/Jul. w-Aug z-Aug/Sep y-Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Aug	259.00	254.40	256.00	255.00
Oct	257.00	253.40	256.00	253.00
Dec	267.00	265.40	264.00	244.00
Mar	247.00	243.00	248.20	243.00
May	248.00	244.00	246.00	244.20
Aug	249.00		248.00	245.40
Oct	248.00	246.00	245.00	244.00

White	Close	Previous	High/Low	
Oct	316.5	314.0	315.5	313.5
Dec	311.5	309.5	310.5	307.5
Mar	311.0	309.0	311.0	308.0
May	313.5	312.0	313.0	312.0
Aug	319.5	318.0	319.0	318.0
Oct	312.0	308.5	310.0	309.0

Turnover: Raw 1794 (2217)lots of 50 tonnes. White 447 (762)
Paris- White (FFr per tonne): Oct 1710, Dec 1695 Mar 1700, May 1710, Aug 1742

CRUDE OIL – IPE ($/barrel)

	Latest	Previous	High/Low	
Sep	19.42	19.58	19.55	19.26
Oct	19.56	19.62	19.63	19.40
Nov	19.60	19.67	19.62	19.41
Dec	19.60	19.62	19.62	19.46
IPE Index	19.64	19.13		

Turnover: 10916 (8460)

GAS OIL – IPE ($/tonne)

	Latest	Previous	High/Low	
Aug	174.75	174.75	175.75	173.00
Sep	175.00	175.25	177.00	173.25
Oct	177.25	177.25	177.50	176.00
Nov	178.50	178.75	179.00	176.25
Dec	179.75	179.50	179.75	177.00
Jan	179.50	179.00	179.50	177.50
Feb	175.75	177.25	175.00	175.00
Mar	168.00	169.00	168.00	164.00
Apr	170.00	168.00	167.00	

Turnover 3930 (9477)lots of 100 tonnes

WOOL

Recent wool sales in Australia continue to show how seriously wool is in over-supply. Offerings in July have been about half the quantities originally scheduled but despite this the AWC is having to buy in over half what is put up for sale. Reduced offerings are a result of inflated figures in June, as growers tried to put up all they could while the higher floor price applied- to them, at AWC expense, but not to buyers, to whom the new 700 cent basis applied.
With holidays a major factor in most consuming countries trade is very subdued and prices soft and static.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low	
Jul	788	733	782	743
Sep	785	782	788	783
Dec	795	782	798	783
Mar	824	810	825	813
May	843	828	843	834
Jul	863	849	861	859
Sep	882	869	882	872

Turnover: 3022 (9494) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jul 24 985.92 (993.15) 10 day average for Jul 25 995.36 (996.40)

COFFEE – London FOX (£/tonne)

	Close	Previous	High/Low	
Jul	538	527	537	532
Sep	557	550	559	552
Nov	577	570	579	574
Jan	596	590	598	595
Mar	616	609	616	613
May	635	628	632	630
Jul	655	646	653	650

Turnover: 2576 (2687) lots of 5 tonnes
ICO indicator prices (US cents per pound) for July 24: Comp. daily 67.76 (67.61). 15 day average 67.94 (67.89)

POTATOES – BFE (£/tonne)

	Close	Previous	High/Low	
Nov	185.0	183.0	184.0	184.0
Apr	129.0	128.9	129.0	126.0
May	141.0	138.0	140.0	137.0

Turnover 357 (308) lots of 40 tonnes.

SOYABEAN MEAL – BFE (£/tonne)

	Close	Previous	High/Low
Oct	109.70	110.00	109.70

Turnover 10 (46) lots of 20 tonnes.

FREIGHT FUTURES – BFE ($10/index point)

	Close	Previous	High/Low	
Jul	1280	1146	1310	1280
Aug	1175	1155	1184	1175
Oct	1280	1253	1290	1280
Jan	1148	1276	1310	1285
Apr	1263	1276	1295	1263
BFI	1142	1141		

Turnover 185 (202)

GRAINS – BFE (£/tonne)

Wheat	Close	Previous	High/Low	
Sep	111.40	111.00	111.20	
Nov	115.60	115.05	115.40	115.30
Jan	119.55	119.00	119.25	
May	126.40	126.00	126.20	

Barley	Close	Previous	High/Low	
Sep	110.50	109.60	110.50	110.00
Nov	114.75	114.10	114.70	114.40
Jan	118.50	117.80	118.15	117.80
Mar	121.50	121.00	121.50	121.25

Turnover: Wheat 38 (63), Barley 167 (75).
Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low	
Aug	114.0	114.3	114.2	114.0
Oct	115.0	118.0	115.0	

Turnover 14 (45) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 12,150 lots	
Cash	1585-7	1570-3		1582-3		
3 months	1615-6	1603-5	1615/1595	1595-6	1612-4	42,078 lots
Copper, Grade A (£ per tonne)					Total daily turnover 84,425 lots	
Cash	1535-7	1487-8	1525/1508	1507.5-8.5		
3 months	1508-9	1469-70	1510/1489	1493.5-4	1505.5-7	18,651 lots
Lead (£ per tonne)					Total daily turnover 1,495 lots	
Cash	470-2	475-7	472	472-2.5		
3 months	475.5-6	478-9	482/475	476-7	475-6	10,944 lots
Nickel ($ per tonne)					Total daily turnover 1,792 lots	
Cash	9900-50	9750-800	9850/9700	9700-50		
3 months	9600-50	9700-25	9850/9775	9775-800	9750-800	9,733 lots
Tin ($ per tonne)					Total daily turnover 1,401 lots	
Cash	5990-6000	6010-5	5990/5970	5970-5		
3 months	6110-20	6135-40	6130/6100	6100-5	6120-30	5,111 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 1,683 lots	
Cash	1580-5	1565-70	1563/1582	1562-3		
3 months	1547-8	1536-8	1560/1537	1537-8	1543-5	19,115 lots

LME Closing £/$ rate: SPOT: 1.8100 3 months: 1.7790 6 months: 1.7544 9 months: 1.7312

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	372¼-372¾	205¾-206¼
Opening	366½-367	203-203½
Morning fix	367.40	205.185
Afternoon fix	372.75	206.261
Day's high	373½-374	
Day's low	366½-367	

Coins	$ price	£ equivalent
Mapleleaf	380-385	210-215
Britannia	380-385	210-213
US Eagle	380-385	210-213
Angel	380-385	210-213
Krugerrand	372-375	205½-207½
New Sov.	88-90	48½-50
Old Sov.	88-90	48½-50
Noble Plat	487.00-494.75	269.20-273.50

Silver fix	p/fine oz	US cts equiv
Spot	269.45	487.40
3 months	279.60	497.50
6 months	289.70	507.30
12 months	309.15	[illegible]

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Nov	Sep	Nov
1500	109	130	4	12
1600	37	63	30	42
1700	6	24	98	100
Copper (Grade A)	**Calls**		**Puts**	
2550	171	139	26	98
2650	105	93	59	150
2750	58	60	110	214
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
500	59	52	2	26
550	22	29	15	53
600	5	15	48	89
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
700	70	84	5	39
750	35	58	20	63
800	14	40	49	95
Brent Crude	**Sep**	**Oct**	**Sep**	**Oct**
1800		169	15	
1850			22	35
1900	76			51

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jul	372.0	367.9	0	0
Aug	372.6	368.4	373.5	372.0
Sep	376.0	370.6	377.0	376.0
Oct	376.8	372.7	379.8	374.0
Dec	381.3	377.2	385.0	379.0
Feb	387.0	381.5	387.0	382.5
Apr	390.9	385.7	391.0	386.5

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	480.0	475.9	480.0	480.0
Oct	486.0	482.9	489.5	484.8
Jan	492.5	488.4	494.5	492.5

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jul	482.8	481.1	487.5	482.2
Aug	483.2	481.7	0	0
Sep	487.0	485.5	495.0	485.5
Dec	497.9	496.3	506.0	496.5
Jan	500.8	499.0	0	0
Mar	508.2	506.7	516.9	508.0
May	516.0	513.4	521.5	516.0
Jul	521.9	520.3	526.5	525.5
Sep	529.3	527.7	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	123.70	122.25	124.80	122.80
Aug	122.65	121.50	123.80	122.00
Sep	121.65	120.40	122.50	119.65
Oct	119.65	118.40	119.90	119.60
Nov	117.35	116.10	117.00	117.00
Dec	114.85	113.40	115.40	112.90
Jan	112.90	111.75	0	0
Mar	109.15	108.15	110.00	109.50
Apr	107.55	106.90	0	0
May	105.95	105.15	106.60	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Sep	20.32	20.56	20.69	20.25
Oct	20.82	21.02	21.18	20.77
Nov	21.09	21.20	21.36	21.00
Dec	21.17	21.33	21.47	21.12
Jan	21.21	21.34	21.42	21.20
Mar	21.40	21.34	21.45	21.21
Apr	21.32	21.33	21.32	21.27
May	21.40	21.33	21.40	0

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Aug	5678	5732	5735	5646
Nov	6000	6047	6040	5970
Dec	6075	6134	6125	6050
Feb	6025	6070	6075	6000
Apr	5665	5665	5665	0

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Sep	1267	1269	1276	1243
Dec	1306	1304	1314	1286
Mar	1344	1343	1347	1330
May	1365	1365	1371	1346
Jul	1385	1385	1389	1376
Sep	1407	1406	0	0
Dec	1440	1498	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Sep	88.80	87.95	88.95	87.60
Dec	92.40	91.80	92.45	91.30
Mar	95.60	95.15	95.60	94.80
May	97.60	96.90	97.25	96.90
Jul	99.00	98.15	99.25	99.25
Sep	100.90	99.65	101.25	100.00
Dec	104.00	102.00	104.00	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	11.45	11.27	11.48	11.27
Mar	11.13	10.93	11.14	10.97
May	11.14	10.94	11.16	11.00
Jul	11.16	10.99	11.15	11.02
Oct	11.16	10.90	11.20	11.10

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	172.40	173.20	173.10	171.60
Nov	162.75	163.00	163.00	162.00
Mar	159.00	158.85	159.00	158.50

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	77.05	77.85	78.15	77.05
Dec	73.98	73.84	74.28	73.34
Mar	74.60	74.66	75.09	74.20
May	74.85	75.06	75.40	74.75

INDICES

REUTERS (Base: September 18 1931 = 100)

Jul 25	Jul 24	mnth ago	yr ago
1796.1	1789.8	1852.9	1993.1

DOW JONES (Base: Dec. 31 1974 = 100)

	Jul 24	Jul 23	mnth ago	yr ago
Spot	131.78	131.78	131.38	130.46
Futures	130.93	130.89	131.17	129.05

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Aug	593/6	594/2	[illegible]	592/4
Sep	598/2	599/4	593/4	597/4
Nov	602/2	609/4	604/4	597/4
Jan	609/4	611/0	615/4	606/4
Mar	620/4	622/4	627/0	620/0
May	627/0	631/0	634/4	627/0
Jul	634/0	637/0	640/0	633/0
Aug	628/6	594/0	635/0	628/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Aug	23.60	23.07	23.61	23.20
Sep	23.56	23.10	23.69	23.23
Oct	23.55	23.13	23.72	23.28
Dec	23.65	23.11	23.69	23.25
Jan	23.65	23.22	23.70	23.35
Mar	23.72	23.36	23.80	23.56
May	23.75	23.47	23.90	23.66
Jul	23.70	23.56	23.98	23.69

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Aug	168.9	170.6	171.2	168.7
Sep	170.3	172.1	172.7	170.1
Oct	171.5	172.9	173.8	171.3
Dec	174.0	175.6	176.5	173.8
Jan	175.2	176.8	177.3	175.1
Mar	177.5	178.7	179.5	177.5
May	179.8	180.9	181.2	179.0
Jul	182.2	182.2	182.5	181.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Sep	260/6	261/4	262/4	260/2
Dec	256/0	257/0	258/6	255/4
Mar	263/4	264/2	266/0	263/0
May	269/2	269/2	271/2	268/4
Jul	272/2	272/2	275/0	271/6
Sep	265/2	265/6	267/4	265/2
Dec	260/4	261/2	263/4	260/2

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Sep	301/4	303/4	305/0	301/0
Dec	318/0	319/6	321/4	317/2
Mar	325/6	328/2	329/6	325/4
May	323/4	326/0	329/4	323/4
Jul	320/4	323/0	324/0	320/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	77.57	78.65	77.85	77.10
Oct	78.32	77.75	78.45	77.85
Dec	77.05	78.77	77.15	76.70
Feb	76.55	76.30	76.65	76.30
Apr	76.90	76.65	76.95	76.47
Jun	74.30	74.02	74.42	74.15
Aug	72.82	72.60	73.00	72.62

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Aug	59.87	59.37	60.60	59.87
Oct	53.95	52.45	53.95	52.90
Dec	52.27	50.92	52.30	51.25
Feb	49.65	49.00	49.90	49.15
Apr	46.25	45.77	46.55	46.25
Jun	50.20	49.60	50.40	50.06
Jul	50.37	49.97	50.40	50.00
Aug	48.75	48.55	48.75	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Aug	47.12	45.12	47.12	47.12
Feb	53.90	51.90	53.90	53.90
Mar	54.10	52.10	54.10	53.60
May	54.45	52.50	54.50	53.90
Jul	54.15	52.15	54.15	54.05

LONDON STOCK EXCHANGE

Share prices fail to hold early gains

GLOOMY views on inflation from both sides of the Atlantic kept the UK stock market subdued yesterday. An early gain in share prices, ascribed largely to aggressive demand from marketmakers short of stock, was virtually eliminated later. UK Government bonds weakened as traders mulled over the admission by Mr John Major, the UK Chancellor of the Exchequer, that the Government's inflation target of 5 per cent by mid-1991 is unlikely to be met. Also discouraging investors were comments on the US inflation outlook from Mr Alan Greenspan, the chairman of the Federal Reserve Board.

Account Dealing Dates		
*First Dealings:		
Jul 2	Jul 23	Aug 6
Option Declarations:		
Jul 12	Aug 2	Aug 16
Last Dealings:		
Jul 13	Aug 3	Aug 17
Account Day:		
Jul 30	Aug 13	Aug 28

*New-time dealings may take place from 8.30 am two business days earlier.

At the opening, London equities appeared to brush off the comments from the UK Chancellor and the US Federal Reserve chief. Overseas earning stocks were ready to respond to the sharp fall in sterling which took place late on the previous evening, and oil issues were still firm on the increasing tension between Iraq and Kuwait.

Marketmakers took the opportunity to bid for shares to meet selling orders transacted when the market plunged on Monday evening, and equities moved up quickly to take the FT-SE Index up by more than 21 points.

Marketmakers had only limited success in tempting out sellers, and once they had stopped trying the market lost momentum. The gain on the Footsie was whittled away, leaving it only 10 points up ahead of Wall Street's opening. When New York came in on an uncertain note, London abandoned independent action and followed the Dow Average as it rallied slowly in early trading to show a loss of about three points as the London market closed for the day.

The FT-SE Index held on to a gain of 3.8 for a closing reading of 2,364.7. This shows a recovery of only 12.2 points since the late setback on Monday when London lost 48 points as Wall Street collapsed. In both Tuesday's and Wednesday's sessions, early attempts to recover ground have been halted by continued nervousness over the outlook for Wall Street.

Trading volume remained unexceptional yesterday, with 427.5m shares through the Seaq network, compared with 385.7m on Tuesday.

Traders commented that the market remains highly vulnerable to negative corporate developments, even when these might have been foreseen. Reuters shares recovered part of the 15 per cent fall suffered on the previous day, but Reed International, as well as other publishing stocks, remained depressed by the trading warning from the Reed chairman.

Yesterday it was the turn of BTR, the international conglomerate, to react sharply to a coded warning to analysts from the boardroom, even though some analysts saw no reason to change stance.

FINANCIAL TIMES STOCK INDICES

	July 25	July 24	July 23	July 20	July 19	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	78.93	79.53	79.43	N/A	79.30	86.76	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	88.08	88.28	88.23	88.08	88.07	97.03	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1865.7	1866.7	1867.1	1826.1	1888.7	1885.8	1968.5 (3/1)	1653.6 (30/4)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	188.2	184.7	182.6	181.9	181.2	193.0	378.5 (6/2)	167.9 (15/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2364.7	2360.9	2359.7	2400.1	2387.3	2384.5	2463.7 (3/1)	2103.4 (30/4)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	4.99	4.97	4.96	4.88	4.91	4.28				
Earning Yld % (full)	10.98	10.95	10.93	10.76	10.81	9.93				
P/E Ratio(Net)(*)	11.24	11.07	11.10	11.27	11.21	12.93				
SEAQ Bargains 4.45pm	21,758	21,391	23,926	N/A	25,533	21,252				
Equity Turnover(£m)†	-	801.52	882.05	908.89	924.85	1093.74				
Equity Bargains†	-	21,932	23,554	27,683	26,399	25,878				
Shares Traded (mil)†	-	445.1	329.5	394.1	405.6	341.4				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. # Nil 10.00.

Ordinary Share Index, Hourly changes — Day's High 1880.0 — Day's Low 1864.9

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1872.1	1873.8	1876.4	1872.4	1871.5	1871.9	1871.4	1870.6	1865.1

FT-SE, Hourly changes — Day's High 2382.5 — Day's Low 2363.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2380.5	2378.1	2378.6	2373.6	2370.9	2371.1	2369.7	2371.5	2363.2

GILT EDGED ACTIVITY

Indices	July 24	July 23
Gilt Edged Bargains	86.3	84.2
5-Day average	83.7	84.3

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001.

Concern over BTR trading

BTR, the international conglomerate, fell by nearly 2.5 per cent on concern that current trading may be slower than the market had previously thought. BTR closed 15 lower at 409p, having had 12m shares traded.

Analysts said BTR had indicated that they should not revise up their profits forecasts despite a beneficial change in the way it translates its overseas earnings. This suggested to analysts that the positive effect from currencies had been offset by slower underlying trading growth.

The move to using the average exchange rate of the pound during the financial year, rather than the rate at the year end, would boost profitability at the interim stage. But most analysts had left their forecasts unchanged. "If you do not upgrade on currency considerations, then it is an underlying downgrade," one analyst said.

Barclays de Zoete Wedd left its forecast for first-half profits unchanged at £540m, while UBS Phillips & Drew lowered its estimate to £535m from £550m.

However, supporting BTR was news that it had made an acquisition in North America for C$130m. Dealers said this effectively ended speculation that it could spend considerably more on a US pump maker.

BAA takes off

BAA traded briskly, rising 6 to 467p as stories began to fly that a predator was running the slide rule over the UK airports operator. A news agency suggested that the interested party was the Bermuda-based services group ADT. Analysts thought it just possible that ADT could gather sufficent funds from US sources to mount a bid but believed such a move unlikely in view of the UK Government's golden share.

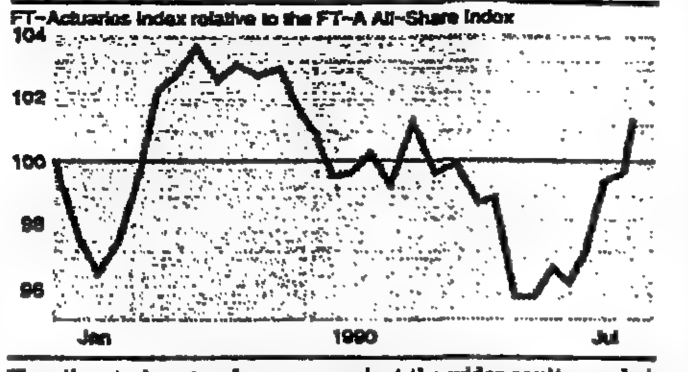
The group's articles of association prevent any individual shareholder owning more than 15 per of the equity, nor have any proposals aimed at changing this been proposed for Monday's annual meeting.

A more plausible reason for the buying was recognition of BAA's fundamental trading performance, said one researcher. "The shares are not trading at a premium to the market and, with an undemanding price-earnings ratio of 10.7 times, they deserve to," he said.

Two large deals of 7m shares apiece were meanwhile recorded in ADT, marginally firmer at 170½p. This may have represented an agency cross but marketmakers were of the opinion that the deals were on behalf of the company itself, which has been aggressively pursuing a share buy-in programme over the past few sessions.

Oil & Gas

FT-Actuaries Index relative to the FT-A All-Share Index



The oil sector's outperformance against the wider equity market, which commenced at the beginning of the month, continued yesterday. Oil shares have been boosted by the sharp upswing in crude prices since the meetings between Opec members held on July 10 and 11, the so-called Jeddah Accord.

Reuters steadier

Reuters began to recover modestly from the previous session's 15 per cent drop. The stock turned lower at one stage but eventually finished 18 higher at 1063p, having traded 5.8m. Analysts said volume had been swelled by holders of News Corporation preferred shares exercising their rights to take cash rather than Reuters stock and then purchasing Reuters shares at the current lower levels.

Behind the advance was a belief that Reuters had been oversold during the previous session. Reuters met with US investment analysts in New York, and this encouraged some buying of stock. UK analysts believed that some leading US investment houses were poised to become positive despite the profits warning delivered on Tuesday. After the London market closed, Reuters was due to meet with key US institutions, the outcome of which would decide whether the recovery continued, analysts said.

Lasmo volatile

Lasmo, one of the brightest stars in an outperforming oil sector in recent sessions, burned fiercely early in the session but then fizzled out to close easier on the day after revealing interim results and the marked absence of any bullish news on the international drilling front. A lessening of the tension in the Middle East also took some of the gloss off the Lasmo share price.

Buyers of Lasmo shares during some busy trading periods this week had apparently been expecting news of an oil discovery from Lasmo's Pakistan drilling operations. This was not forthcoming and specialists said the drilling would probably result in a gas discovery.

Lasmo's interim figures were said to be as expected, although there was slight disappointment with the interim dividend.

The Lasmo share price raced up to 463p during early trading, but subsequently retreated to 440p after the figures before ending a volatile session a net 3 easier at 445p. Turnover reached 2.9m shares.

The rest of the oil sector was much calmer after the frantic buying interest generated in recent days by the build up of tension in the Gulf. Brent crude for September delivery was some 20 cents a barrel lower on the day after international news agencies reported Iraq telling the Egyptians that they would not invade Kuwait.

But specialists were very wary of taking a bearish view of crude prices or the oil sector. "I would not recommend taking out any short positions on the back of today's stories," said one, although he did say that typically in any Opec meeting situation "the travelling tends to be more comfortable than the arrival." He added that yesterday's market monitoring committee meeting represented nothing more than "preliminary sparring; the real business starts today."

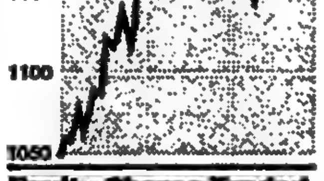
There was more big activity in BP, which touched 349p before coming off sharply to close only 3 ahead at 343p on turnover of 12m. Shell, up to 498p early in the session, were driven down to close marginally off on the day at 488p on turnover of 4.4m. British Gas were finally 2½ higher at 220½p on 6.3m.

Enterprise was one of the sector's best performers, closing 11 up at 687p, after 690p. Ultramar gained 6 to 349p.

Dealers said the second line oils, very much left behind in the recent upsurge by the oil majors, enjoyed some keen support, notably Clyde, which put on 2 to 177p, after 179p. Goal added the same at 101p, and Aran Energy 5 at 52p; Aran nil-paid moved up 4 to 15p premium. Premier closed at 88p ex the one-for-ten scrip issue.

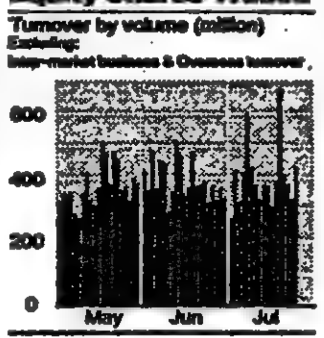
The reaction of defence issues to the sweeping cuts in all three armed services, the first results of the "options for change" defence review, was muted. British Aerospace was the only stock to record an appreciable loss, and most of this occurred before Parliament was told the news yesterday afternoon. Shares of BAe closed 10 down at 542p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover.



Thorn EMI dropped 7 more to 718p, upset by the BZW downgrade – for 1990-91 BZW is going for pre-tax profits of £335m, down £13m – and worries about tomorrow's annual meeting, which some specialists expect to include a cautious statement. One analyst said yesterday that "a lot of downgrades, some expected to be substantial, are in the pipeline. The Rumbelows business is said to be performing very poorly and the UK TV rentals business is having a bad time."

Conflicting analytical assessments failed to dampen buying enthusiasm for TI Group, up 6 further at 536p. Smith New Court continued to recommend the stock as "a major play in the sector, has cash, world leading businesses and a management committed to growth." WI Carr, on the other hand, advised investors "to take profits ahead of the interim results on August 2."

The rerating of British Vita continued and the shares moved to a high point for the year of 214p, up 6. County NatWest said earlier this month the group has suffered from negative sentiment on the UK foam market rather than from poor operating results. Profits will rise strongly when foam demand starts to recover, continued the investment house.

Macarthy found favour late, rising to 186p for a gain on the session of 11. Hoare Govett advised last week that the interim results should represent the nadir of the company's fortunes and pointed to the outstanding yield offered.

Water shares continued to register strong gains, helped by a continuing stock shortage. The positive statement at the company's maiden annual meeting triggered further good demand for North West Water, which moved up 4 to 233p.

Good turnover was also noted in Thames, one of the strongest performers in the sector during recent sessions, and which added 4 at 232p on 2.1m shares, including a single trade of 1m. Thames announced the sale of its PWT subsidiary for £1.2m.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm

Anglian were a similar amount ahead at 232p on turnover of 4.1m, easily the highest in water stocks, boosted by two individual trades of 1.3m shares and 800,000 shares. The Water Package jumped 35 to £2293.

Budgens lost 5 to 55p after its final profits fell 28 per cent to £11.8m, which was more than the market had been anticipating. However, there were suggestions that Sir Ron Brierley's IEP Securities, which holds a 14.1 per cent stake, had been adding to its stake. William Low gained 15 to 359p, also on talk that it had been picking up stock. It holds less than 2 per cent of Budgens.

Meyer International came under persistent selling pressure late in the day and closed 11 lower at 414p. Analysts were said to have been impressed by a visit to the group's operations in Holland on Tuesday but are thought to have remained cautious about the UK businesses.

A buy recommendation issued by the Smith New Court leisure team boosted Queens Moat 2 to 104p. Regal Hotel jumped 19 to 95p after receiving an approach which could lead to a bid.

A number of buy recommendations, notably from BZW and Smith New Court, were behind the good showing of Cityvision, which rose 4 to 103p.

Misys, which earlier this week revealed a £4.3m contract to develop and supply computer software to 19 universities, came up with preliminary figures in the middle of the market's range. Pre-tax profits were £11.07m, with the dividend slightly disappointing at 5.28p. Misys eased 5 to 175p.

The recent steep slide in the Sema share price, triggered when shareholder Cap Gemini Sogeti launched an agreed bid for fellow computer group Hoskyns, was arrested and the market was taken by surprise when CGS revealed it had bought a further 424,955 Sema shares, raising its stake to 27 per cent. Down over 100p since the Hoskyns bid yesterday week, Sema rallied 10 to 536p.

■ Other Market statistics, including the FT-Actuaries share index, Page 24

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (82). BRITISH FUNDS (2) BREWERS (1) BUILDINGS (4) STORES (3) ENGINEERING (1) FOODS (5) INDUSTRIALS (8) Baird (Wm.), British Vita, Dolphin Packaging, Elys, Hadleigh Inds., Jardine Hldgs., Schlumberger, Spandex. INSURANCE (3) LEISURE (3) PAPERS (2) TEXTILES (2) TRANSPORT (2) TRUSTS (11) OILS (8). NEW LOWS (46). AMERICANS (4) BANKS (3) BUILDINGS (3) ELECTRICALS (1) ENGINEERING (7) FOODS (2) INDUSTRIALS (10) Aukett Assocs., BTR Warrants, Brit. Fittings, Brook Service, Co of Designers, Elders IXL, Grovewood, Medeva, Sale Tilney, Scottish Heritable Tst., INSURANCE (3) LEISURE (2) MOTORS (3) PROPERTY (4) TEXTILES (1) TRANSPORT (1) TRUSTS (8) MINES (1) THIRD MARKET (1).

APPOINTMENTS

Group chief executive at Unigate

UNIGATE has appointed Mr Ross Buckland *(pictured)* as group chief executive from October 1. Mr John Clement, current chairman and chief executive, will continue as chairman, but plans to retire in two years. Mr Buckland, an Australian, will become responsible for the three operating divisions: UK food, US food, and distribution services. He was with the Kellogg Company, and has been chief executive in Australia and Canada. He is chief executive of all Kellogg's operations in Europe.

■ MEYER UK, cookware manufacturer, has promoted Mr Mike Thomas from company secretary to commercial director; and Mr David Peace from sales manager to sales director.

■ Mr Cliff James, director in charge of finance and systems in the UK for CGM, will be taking responsibility for finance and treasury for the Far East, initially based in Paris, and then in Singapore. In the US Mr Mark Royden joins CGM New York to handle conference pricing. He moves from the Paris head office. Mr David Wiskin will replace Mr James in the UK. He joined 12 months ago as financial director designate.

■ Mr David Boorer has been appointed head of credit at SOCIETE GENERAL, London office. He joins from a similar post at Bank of Tokyo International. Mr John Brandon will be head of credit audit.

■ TOUCHE REMNANT INVESTMENT MANAGEMENT has appointed Mr John Murray and Mr Colin Moore as directors.

■ READICUT INTERNATIONAL has appointed to the board Mr M.H. Ely, managing director of subsidiary Hoyland Fox.

■ THIRD WAVE GROUP has appointed Mr Michael Ryan, head of the school of computer applications, City of Dublin University, as a non-executive director of Third Wave, a recently-formed Dublin subsidiary. He is also managing director of Active Computer Systems, an on-campus company which he founded.

■ Sir Patrick Meaney, chairman of The Rank Organisation, has been appointed a non-executive director of TARMAC. He is also chairman of A. Kershaw and Sons, deputy chairman of Midland Bank, and a director of ICI and MEPC.

TI GROUP has appointed Mr James H. Katzoff *(pictured)* as president and managing director of its thermal technology businesses. He will be based in Abingdon, and joins from The Singer Company.

■ Captain Robert Worlidge has been appointed to lead the defence division for JOHN BROWN ENGINEERS AND CONSTRUCTORS, London operating centre. He joined the company, a Trafalgar House subsidiary, in 1986 as naval business manager.

Burton finance director moves to Charter

■ CHARTER CONSOLIDATED has appointed Mr Nigel Robson as finance director from September 1. He is corporate finance director at The Burton Group, and was previously with Hanson as finance director of the London Brick Company.

■ Mr Gil Covey has been appointed managing director of the pallet division of UNIT GROUP. Mr Covey was managing director of a small privately-owned Swedish company, and previously worked for Suter, Leyland Bus, and Dunlop Aviation.

■ Mr Tony Vine-Lott, managing director, Barclays Broker Services, has been appointed a member of the STOCK EXCHANGE SCOTTISH REGIONAL COMMITTEE. He will be the first Englishman, representing an English broker and bank, to have access through the forum to Scottish stockbrokers and market makers.

■ Mr Kurt Geiger becomes European network director at MIDLAND MONTAGU.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years) · Five to Fifteen Years · Over Fifteen Years · Undated

1990 High	1990 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS—Contd

Index-Linked · INT. BANK AND O'SEAS · CORPORATION LOANS · COMMONWEALTH & AFRICAN LOANS · LOANS · Building Societies · Public Board and Ind. · FOREIGN BONDS & RAILS · AMERICANS

1990 High	1990 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AMERICANS—Contd

CANADIANS

1990 High	1990 Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

LONDON SHARE SERVICE

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
303	209	ANZ SA1	229	+3	44c	1.4	8.7	8.2
229	172	Abbey National 10p	227½	+½	5.7	4.3	3.3	9.2
*274	210	Allied Irish Ord	219	+1	Q40%	3.3	4.3	9.4
£13⅛	£10⅞	Algemene Fl.10	£10⅞	......	Q28%	2.1	7.7	6.1
85	63	Anglo Irish	70	......	†Q8.7%	2.7	6.3	9.6
93	68	Ansbacher (H.) 1p	88	......	2.5	1.3	3.8	25.3
£71⅜	£54⅛	Bancaire Cie Fr100	£57⅝	+⅛	bQ24½%	–	2.3	–
£22¼	£16⅝	Banco Bilbao Viz	£19½	......	Q49.1%	2.7	4.5	12.6
£31	£24½	Banco de Santander	£29	......	Q25%	2.4	3.8	10.8
286	214	Bank Ireland Ir£1	224	+1	Q14.7%	2.9	6.2	7.5
£19½	£18	Bank Leumi	£19½	......	–	–	–	–
380	320	Bank Leumi (U.K.)	358	......	†13.5	–	4.8	–
125	104	Bank Scotland	117	......	4.55	3.3	5.2	7.8
100¼	83¼	Do. 9¼pc Irrd Pf	96½	−½	9¼%	–	12.8	–
54	39	Bank of Wales	52	......	2.8	0.8	7.2	25.0
428	352	Barclays £1	407xr	+10	h19.57	3.5	6.4	5.6
22	12	Benchmark 20p	14	+1	1.63	1.0	15.5	8.0
335	310	Brown Shipley £1	311	+1	12.0	2.2	5.1	10.0
*435	341	Cater Allen £1	364	−2	N24.5	–	9.0	–
179	112	Chancery	114	......	9.0	2.7	10.5	4.6
£23¾	£18¼	Commerzbk DM10	£20⅛	+⅛	Q18%	–	3.1	–
£13⅛	842	Dai Ichi KBk Y50	864	+5	Q17%	♦	0.4	♦
£313½	£261	Deutsche Bk DM50	£277½	+2½	Q28%	–	1.7	–
£20⅞	£18¼	Espirito Santo	£18½	+⅛	Q75c	5.1	2.4	–
253	183	First Nat. Fin. 10p	203	+2	13.0	2.1	8.5	7.0
121	95	FNFC 6.3pc Cv. Pf	102	+2	6.3%	–	8.3	–
£13⅛	890	Fuji Bank Y50	907	+17	Q17%	♦	0.3	♦
[illegible]	[illegible]	Gerrard & National	295	+1	19.0	–	8.6	–
154	122	Guinness Mahon 10p	122	......	2.1	–	2.3	–
[illegible]	225	Hambros 20p	258	......	11.5	–	5.9	–
128	93	Do. 7.5pc Cv Pf	108	......	7½%	–	9.3	–
53½	42	HK & Shang. HK$2.50	44	+2	tQ38c	–	6.1	–
478	458	Joseph (Leo) £1	463	......	15.85	♦	4.7	♦
150	126	King & Shaxson 20p	140	......	10.25	–	9.8	–
422	340	Kleinwort Benson Grp	372	−1	16.0	2.5	5.7	9.4
602	402	Kyowa Bank Y50	410	−4	Q14%	♦	0.7	♦
[illegible]								

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

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MOTORS, AIRCRAFT TRADES – Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY – Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST – Contd

[illegible]

INVESTMENT TRUST – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

MINES – Contd

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.
Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.
● "Tap Stock"
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
◆ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
● USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially listed.
§ Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
◆ Merger bid or reorganisation in progress
◆ Not comparable
◆ Same interim; reduced final and/or reduced earnings indicated
§ Forecast dividend; cover on earnings updated by latest interim statement.
‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
■ No par value
B.Fr. Belgian Francs. Fr. French Francs. ☆☆ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1... γ	630	......
Finlay Pkg. 5p... γ	51	–2
Holt (Jos) 25p... γ	1310	–5

IRISH

Cap 8½% Ln 1991	£98¼	......
9pc Cap Ln 1996	£96	–⅛
Fin. 13% 97/02	£113½	......
Arnotts	200	......
Carroll (P.J.)... γ	125	......
Hall (R. & H.)	165	......
Heiton Hldgs.... γ	76	......
IRG	200	+5
United Drug	155	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	7
Astec (BSR)	6
BAT	62
BOC Grp	48
BTR	37
Barclays	34
Blue Circle	21
Boots	24
Bowaters	40
Brit Aerospace	47
British Steel	13
Brit. Telecom	25
Cadburys	30
Charter Cons.	42
Comm Union	41
Courtaulds	29
Eurotunnel	55
FKI	7
FNFC	20
Gen Accident	46½
GEC	18
Glaxo	68
Grand Met	53
Guardian	20
GKN	33
Hanson	20
Hawker Sidd	53
ICI	99
Ladbroke	27
Legal & Gen	34
Lex Service	28
Lloyds Bank	25
Lucas Inds	13
Marks & Spencer	19
Midland Bk	24
Nat West Bk	30
P & O Dfd	52
Polly Peck	39
Racal Elect.	19
RHM	30
Rank Org Ord.	70
Reed Intnl	38
STC	21
Sears	9
SmKl. Beecham A	48
TI	39
TSB	11
Tesco	19
Thorn EMI	62
Trust Houses	24
T&N	28
Unilever	58
Vickers	19
Wellcome	57

Property	
Brit Land	32
Control Secs	4
Land Securities	[illegible]
MEPC	[illegible]
Mountleigh	13

Oils	
Ariva Petlm	5
Brit Petroleum	28
Burmah Oil	55
Conroy Petlm	10
Gaelic Res	3½
Premier	9
Shell	40
Tuskar Res	5½
Ultramar	31

Mines	
Lonrho	21
RTZ	50

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AUTHORISED UNIT TRUSTS

GUIDE TO UNIT TRUST PRICING

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Thornhill Unit Trust Managers Ltd

Thornton Unit Managers Ltd

Three Counties Asset Mngmt Ltd

Timberlake Trust Mngrs Ltd

Touche Remnant Unit Tst Mngt Ltd

Phillips & Drew Fund Management Ltd

NM Rothschild Asset Management Ltd

J. Rothschild Fund Managers Ltd

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

Touche Remnant Unit Tst Mngt Ltd

INSURANCES

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

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Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 683986

	Bid Price	Offer Price	+ or −	Yield Gross
NUAM Funds				
Managed Fund	67.3	70.9	+0.2	—
Stock Market Mngd Fund	66.1	69.6	+0.3	—
Equity Fund	71.9	75.7	+0.1	—
International Fund	61.3	64.5	+0.5	—
European Fund	74.8	78.8	+0.5	—
North American Fund	58.9	62.0	+0.6	—
Pacific Fund	66.1	69.5	+0.5	—
Property Fund	87.1	91.7	----	—
Fixed Interest Fund	51.2	53.9	−0.3	—
Index Linked Sec Fund	57.0	60.0	−0.1	—
Deposit Fund	64.1	67.5	+0.1	—
NUAM Retirement Plans				
Mixed Fund	73.3	77.2	+0.3	—
UK Ordinary Share Fd	84.1	88.5	+0.2	—
International Fund	64.9	68.3	+0.5	—
Property Fund	85.7	90.2	----	—
Fixed Interest Fund	60.5	63.7	−0.3	—
Index Linked Sec Fund	60.0	63.2	−0.1	—
Deposit Fund	73.6	77.5	----	—
NUAM (RP)				
Managed Fund	949.4	999.4	+2.7	—
Equity Fund	1969.4	2073.1	+5.5	—
International Fund	161.7	170.3	+1.5	—
Property Fund	550.8	579.8	----	—
Fixed Interest Fund	383.3	403.5	−2.1	—
Index Linked Sec Fund	58.0	61.1	----	—
Deposit Fund	263.3	277.2	+0.1	—

Norwich Union Life Insurance Soc.
Surrey Street, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	+ or −	Yield Gross
Unitised Life				
With Profits Fd	103.01	108.43	+0.03	—
Managed Fd	92.85	97.74	+0.39	—
UK Ord Share Fd	95.24	100.25	+0.24	—
International Fd	90.05	94.79	+0.79	—
European Fd	106.74	112.35	+0.77	—
North American Fd	89.61	94.32	+0.96	—

Providence Capital Life Assc. Co Ltd — Contd.

	Bid Price	Offer Price	+ or −	Yield Gross
Individual Pension Funds				
UK Equity Acc	229.1	241.7	+0.7	—
UK Fixed Interest Acc	190.1	200.6	+0.3	—
Intl Equities Acc	253.2	267.1	−1.6	—
UK Managed Acc	186.2	196.4	+0.2	—
Property Acc	212.8	224.5	−0.1	—
Money Acc	144.0	152.0	+0.1	—
Special Market Acc	265.4	280.0	−0.6	—
Japan Equity Acc	190.9	201.4	+2.1	—
North American Acc	123.0	129.8	+1.2	—
Pacific Acc	201.3	212.4	+0.1	—
Technology Acc	166.5	175.7	−0.4	—
Natural Resources Acc	103.9	109.7	−0.2	—
European Acc	146.9	155.0	+0.2	—
Residential Prop Acc	107.0	112.9	----	—
Swiss Equities Acc	42.3	44.7	+0.4	—
Hong Kong Acc	57.4	60.6	+0.9	—
UK High Inc Equ Acc	75.5	79.7	+0.4	—
Int Fixed Interest Acc	53.6	56.6	+0.1	—
Int Managed Acc	61.7	65.0	−0.2	—
Group Pension Funds				
Equity Acc	848.2	874.5	−2.2	—
Fixed Interest Acc	559.8	577.2	+1.1	—
Managed Acc	133.3	135.9	−0.4	—

Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	+ or −	Yield Gross
Unit Fund (Mixed)	1059.1	1112.1	+0.5	—
Equity Fund	246.4	258.7	+0.4	—
International Fd	155.0	162.8	−0.7	—
Fixed Interest Fd	154.8	162.5	−0.3	—
Property Fund	229.8	241.3	----	—
Index-Linked Fund	143.8	151.0	−0.6	—
Deposit Fund	152.0	159.6	----	—
Pens. Mixed (Ord) Fd	256.0	268.8	+0.2	—
Gold Pensions				
Discretionary Fund		124.7	+0.1	—
Equity Fund		126.7	+0.3	—
Fixed Interest Fund		112.8	[illegible]	—

Royal Life Insurance Ltd
New Hall Place, Liverpool L69 3HS

Royal Liver Assurance
Royal Liver Building, Liverpool L3 1HT

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Save & Prosper Group

Skandia Life Assurance Co Ltd — Contd.

Standard Life Assurance Company

Sun Alliance Group — Contd.

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan Assurance Society

Windsor Life Assur Co Ltd
Windsor House, Telford, Shropshire 0952 292929

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

Sun Alliance International Life

Target International Group

MANAGEMENT SERVICES

J. D. Ward Financial Services Ltd

Westcourt Asset Management Ltd

OFFSHORE AND OVERSEAS

CANADA (SIB RECOGNISED)

Ivory & Sime Pembroke Inc

GUERNSEY (SIB RECOGNISED)

BBV-Hambros Asset Mngmt (Guernsey) Ltd

Cigna International Fund Mngrs (CI) Ltd

Gartmore Fund Managers

Hambros Fd Mgrs (CI) Ltd

Leopold Joseph Fund Mngmt (Guernsey) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lloyds Intl Money Market Fund Ltd

N & G Island Fund

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Funds

GUERNSEY (REGULATED)

Adams & Neville Fund Mngt (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

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Barclays International Funds

Target International (Isle of Man) Ltd

Tyndall International (Isle of Man) Ltd

Unibank Scandinavian Fund Ltd

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling suffers ERM jitters

STERLING ATTRACTED attention during an otherwise routine day on the foreign exchanges. The pound weakened sharply on the day, but closed in London above the levels seen earlier in Tokyo. The nervous tone began as equity prices fell Monday and continued on Tuesday when Mr John Major, the UK Chancellor, sounded warnings about the prospects for UK inflation. Although Mr Major was optimistic about getting inflation down the market took his comment that it could go "a little higher yet before it begins to turn down" as an indication of possible delay in sterling's membership of the European Monetary System exchange rate mechanism.

This sparked selling as the London market was closing on Tuesday. After weakening to $1.8128 in New York the pound attracted stop loss selling in the Far East at $1.8037 and closed in Tokyo at $1.8030. Sterling remained nervous during European trading, but the lowest level seen was $1.8045, and it closed at $1.8135, a loss of 1.20 cents on the day.

The pound also fell to DM2.9325 from DM2.9550; to FFr9.8325 from FFr9.9075; to SFr2.4875 from SFr2.5100; and to Y270.00 from Y271.00. Its index shed 0.8 to 92.9.

The dollar fell towards the bottom of a fairly narrow trading range at the London close. Earlier in the day it showed little reaction to weaker than expected June US durable goods orders. The market was looking for a rise of about 0.4 per cent, but the fall of 3.2 per cent was shrugged off because of the data's erratic nature.

In London the dollar fell to DM1.6170 from DM1.6185; to FFr5.4225 from FFr5.4275; and to SFr1.3715 from SFr1.3750, but rose to Y148.85 from Y148.40. The dollar's index was unchanged at 65.2.

The Spanish peseta was above its EMS ceiling against the weakest placed currencies, but was within its agreed limits against the French franc. Spain's current account deficit widened to $1.64bn from $1.33bn in June. The accumulated deficit for the first half of 1990 was $7.53bn, against $5.76bn for the same period of last year, but the peseta continues to gain from the high level of Spanish interest rates. The authorities in Madrid recently ruled out a cut in rates as a way to stem upward pressure on the currency.

The French franc had a firmer tone in general. In Paris the peseta was fixed at FFr5.4750 per 100: below its ceiling of FFr5.4785. The franc was underpinned by the weakness of the D-Mark within the system, on concern about the impact of East German integration with its western counterpart.

The Australian dollar was steady. It closed at 78.60 US cents in London, after finishing at 78.40 cents in Sydney. The market is waiting for tomorrow's release of June Australian trade figures. A slight narrowing of the current account deficit from the unadjusted May figure of A$1.55bn is expected.

EURO-CURRENCY INTEREST RATES

Jul 25	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	15 - 14¾	15 - 14¾	15⅛ - 14⅞	15⅛ - 14⅞	14⅞ - 14⅞	14⅞ - 14⅝
US Dollar	8⅛ - 7⅞	8⅛ - 7⅞	8⅛ - 7⅞	8⅛ - 8	8⅛ - 8	8¼ - 8⅛
Can. Dollar	13¼ - 13	13⅝ - 13⅛	13⅝ - 13¼	13¾ - 13½	13⅜ - 12⅞	13 - 12¾
D. Guilder	8⅛ - 8⅛	8⅛ - 8⅛	8⅛ - 8	8⅜ - 8⅛	8½ - 8⅜	8⅝ - 8⅜
Sw. Franc	9 - 8¾	9 - 8¾	9 - 8¾	8⅞ - 8⅞	8⅞ - 8¾	8⅝ - 8½
Deutschmark	8⅛ - 7⅞	8⅛ - 7⅞	8⅛ - 8	8¼ - 8⅛	8⅜ - 8¼	8⅝ - 8⅜
Fr. Franc	10⅛ - 10	10 - 9⅞	10 - 9⅞	10 - 9⅞	10⅛ - 9⅞	10⅜ - 10⅛
Italian Lira	13 - 11	12¼ - 11¼	11½ - 11	11½ - 11	11⅝ - 11⅜	11⅝ - 11½
Belgian Franc	9¾ - 9½	9⅞ - 9⅝	9⅞ - 9⅝	9⅞ - 9⅝	9¾ - 9½	9¾ - 9½
Yen	7½ - 7⅜	7⅝ - 7½	7⅝ - 7½	7¾ - 7⅝	7⅞ - 7¾	7⅞ - 7¾
D. Krone	10⅜ - 10⅛	10⅜ - 10⅛	10¼ - 10⅛	10⅜ - 10⅛	10⅜ - 10⅛	10½ - 10⅜
Asian $Sing.	8⅛ - 8	8⅛ - 8	8⅛ - 8	8⅛ - 8	8⅛ - 8	8¼ - 8⅛

Long term Eurodollars: two years 8⅝-8½ per cent; three years 8⅞-8¾ per cent; four years 8⅞-9 per cent; five years 9⅛-8⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

£ IN NEW YORK

July 25	Latest	Previous Close
£ Spot	1.8115-1.8125	1.8225-1.8232
1 month	1.12-1.11pm	1.12-1.10pm
3 months	3.18-3.16pm	3.03-3.00pm
12 months	10.10-9.95pm	9.95-9.85pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

Jul 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8015 - 1.8140	1.8130 - 1.8140	1.09-1.07cpm	7.15	3.11-3.08cpm	6.83
Canada	2.0795 - 2.0925	2.0860 - 2.0870	0.29-0.22cpm	1.47	0.94-0.81pm	1.68
Netherlands	3.29¾ - 3.31¼	3.30 - 3.31	2-1¾cpm	7.03	5¾-5½pm	6.73
Belgium	60.05 - 60.60	60.45 - 60.55	33-26cpm	5.85	94-79pm	5.72
Denmark	11.12¾ - 11.20	11.19 - 11.20	5-4½orepm	5.02	14-12¾pm	4.78
Ireland	1.0905 - 1.1020	1.0940 - 1.0950	0.45-0.41ppm	4.71	1.29-1.18pm	4.51
W. Germany	2.92¼ - 2.94	2.93 - 2.93½	1¾-1⅝cpm	7.16	5-4cpm	6.14
Portugal	256.45 - 258.45	257.10 - 258.10	26-5cpm	0.72	96-21pm	0.91
Spain	178.95 - 180.20	179.10 - 179.40	5-2cpm	0.23	11-1pm	0.13
Italy	2142 - 2152	2145½ - 2146½	8-6lirepm	3.91	21-18pm	3.63
Norway	11.28 - 11.34¼	11.33¼ - 11.34¼	4½-3¾orepm	4.23	11¾-10¼pm	3.81
France	9.80½ - 9.86	9.82¾ - 9.83¾	4½-4¼cpm	5.26	12½-12pm	4.98
Sweden	10.64½ - 10.71	10.70 - 10.71	3-2½orepm	3.08	7½-6½pm	2.62
Japan	269 - 270½	269½ - 270½	1⅞-1⅝ypm	7.78	5-4¾pm	7.22
Austria	20.55 - 20.70	20.60 - 20.63	12¾-11½gropm	6.95	34½-32½pm	6.48
Switzerland	2.48¼ - 2.50¼	2.48¼ - 2.49¼	1⅝-1¼cpm	6.33	3⅞-3⅝pm	6.03
ECU	1.4145 - 1.4180	1.4150 - 1.4160	0.63-0.60cpm	5.21	1.71-1.66pm	4.76

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.81-5.76cpm. 12 Month 10.10-10.00cp.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8015 - 1.8140	1.8130 - 1.8140	1.09-1.07cpm	7.15	3.11-3.08cpm	6.83
Ireland†	1.6485 - 1.6560	1.6525 - 1.6535	0.39-0.34cpm	2.65	1.05-0.95pm	2.42
Canada	1.1505 - 1.1575	1.1515 - 1.1525	0.54-0.56cdis	-5.73	1.49-1.54dis	-5.26
Netherlands	1.8215 - 1.8315	1.8215 - 1.8225	0.01-0.03cdis	-0.13	0.06-0.09dis	-0.16
Belgium	33.30 - 33.45	33.30 - 33.40	2.00-5.00cdis	-1.26	6-13dis	-1.14
Denmark	6.16½ - 6.18½	6.17 - 6.17½	1.03-1.23oredis	-2.20	3.00-3.50dis	-2.11
W. Germany	1.6165 - 1.6265	1.6165 - 1.6175	0.01-0.03pfdis	-0.15	0.06-0.09dis	-0.19
Portugal	142.50 - 142.80	142.50 - 142.60	63-78cdis	-5.93	190-220dis	-5.75
Spain	99.10 - 99.50	99.15 - 99.25	54-60cdis	-6.90	160-172dis	-6.69
Italy	1184½ - 1190	1183½ - 1183½	3.00-3.50liredis	-3.3	9.00-10.00dis	-3.21
Norway	6.24½ - 6.26½	6.25¼ - 6.25½	1.50-1.75oredis	-3.12	4.65-5.05dis	-3.10
France	5.42 - 5.45½	5.42 - 5.42½	0.83-0.90cdis	-1.91	2.92-2.68dis	-1.92
Sweden	5.89½ - 5.91½	5.90 - 5.90½	1.95-2.10oredis	-4.12	6.22-6.55dis	-4.33
Japan	148.75 - 149.25	148.80 - 148.90	0.08-0.06ypm	0.56	0.16-0.13pm	0.39
Austria	11.40 - 11.43½	11.40½ - 11.41½	0.05-0.45grodis	-0.26	0.80-1.90dis	-0.47
Switzerland	1.3735 - 1.3845	1.3710 - 1.3720	0.09-0.12cdis	-0.92	0.29-0.34dis	-0.92
ECU	1.2720 - 1.2790	1.2780 - 1.2790	0.21-0.20cpm	1.92	0.68-0.66pm	2.10

Commercial rates taken towards the end of London trading. †-UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

CURRENCY MOVEMENTS

July 25	Bank of England Index	Morgan** Guaranty Changes %
Sterling	92.9	-13.5
U.S Dollar	65.2	-18.8
Canadian Dollar	104.5	+1.6
Austrian Schilling	109.4	+11.5
Belgian Franc	111.1	-2.5
Danish Krone	110.5	+4.7
Deutsche Mark	118.4	+24.1
Swiss Franc	113.5	+21.9
Guilder	114.2	+15.7
French Franc	104.7	-12.1
Lira	101.5	-18.1
Yen	121.9	+62.1

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100)**Rates are for July 24.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July 25	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.1679	42.5403	+0.88	+0.56	±1.5508
Danish Krone	7.79845	7.86342	+0.83	+0.51	±1.6453
German D-Mark	2.04446	2.06662	+1.08	+0.76	±1.1762
French Franc	6.85684	6.92798	+1.04	+0.72	±1.3618
Dutch Guilder	2.30358	2.32842	+1.08	+0.76	±1.5272
Irish Punt	0.763159	0.770544	+0.97	+0.65	±1.6689
Italian Lira	1529.70	1512.61	-1.12	+1.44	±1.3162
Spanish Peseta	132.889	126.588	-4.76	-4.75	±4.2705

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

OTHER CURRENCIES

Jul 25	£	$
Argentina	9322.80 - 9470.35	5155.00 - 5195.00
Australia	2.3000 - 2.3020	1.2725 - 1.2735
Brazil	121.715 - 122.865	67.30 - 67.90
Finland	6.8815 - 6.8945	3.8040 - 3.8070
Greece	285.00 - 289.60	157.975 - 160.30
Hong Kong	14.0280 - 14.0415	7.7600 - 7.7620
Iran	124.50*	67.80*
Korea(Sth)	1282.40 - 1303.05	712.80 - 718.40
Kuwait	0.52270 - 0.52320	0.28980 - 0.28990
Luxembourg	60.45 - 60.55	33.30 - 33.40
Malaysia	4.8940 - 4.9060	2.7055 - 2.7075
Mexico	5190.40 - 5195.05	2870.00 - 2880.00
N.Zealand	3.0500 - 3.0545	1.6880 - 1.6900
Saudi Ar.	6.7630 - 6.7010	3.7495 - 3.7505
Singapore	3.2880 - 3.2950	1.8190 - 1.8210
S.Af (Cm)	4.7180 - 4.7250	2.6080 - 2.6100
S.Af (Fn)	6.9845 - 7.1220	3.8610 - 3.9370
Taiwan	49.10 - 49.20	27.15 - 27.20
U.A.E.	6.6200 - 6.6280	3.6715 - 3.6735

* Selling rate

EXCHANGE CROSS RATES

July 25	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.814	2.933	270.0	9.833	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	0.551	1	1.617	148.8	5.421	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	0.341	0.618	1	92.06	3.353	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	3.704	6.719	10.86	1000.	36.42	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	1.017	1.845	2.983	274.6	10.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	0.402	0.729	1.179	108.5	3.952	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	0.303	0.549	0.887	81.69	2.975	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	0.466	0.845	1.367	125.8	4.582	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C $	0.479	0.869	1.405	129.4	4.712	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B Fr.	1.653	2.998	4.848	446.3	16.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

Longer rates firm

TUESDAY'S WARNING by Mr John Major, the UK Chancellor, that inflation may not have yet peaked and that the 5 per cent target is unlikely to be hit by the middle of next year, pushed longer term rates higher in London yesterday.

One-year interbank rose to 14⅞-14⅞ per cent from 14¾-14⅞, but the important three-month rate was steady at 14⅞-14⅞ per cent. On Liffe short sterling futures reacted negatively to the inflation forecasts. December delivery opened weaker at 86.11, and fell to a low of 86.03, before closing at 86.05 against 86.20 previously.

UK clearing bank base lending rate 15 per cent from October 5

There was another large shortage of credit on the money market. The Bank of England initially forecast a day-to-day shortage of £850m, but revised this to £800m in the afternoon. Total help of £781m was provided.

Before lunch the authorities bought £194m bills outright, by way of £18m Treasury bills in band 2 at 14¾ per cent and £176m bank bills in band 2 at 14¾ per cent. In the afternoon another £292m bills were purchased, via £98m bank bills in band 1 at 14¾ per cent; £30m Treasury bills in band 2 at 14¾ per cent; and £164m bank bills in band 2 at 14¾ per cent. Late assistance of around £295m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,194m, with a rise in the note circulation absorbing £95m. These outweighed Exchequer transactions adding £250m to liquidity and bank balances above target of £210m.

In Frankfurt call money rose to the Lombard emergency financing rate of 8 per cent from 7.95 per cent, after the Bundesbank disappointed the money market by draining DM4bn at this week's securities repurchase agreement tender. The central bank accepted bids of only DM13bn, for 28-day funds at rates between 7.90 and 8.00 per cent, against an expiring facility of DM17bn.

Dealers regarded the decision to drain funds as a sign that the Bundesbank is happy to keep call money around the Lombard level. Lombard borrowings on Tuesday fell to about DM1.8bn from DM2bn. Banks reserve holdings for the first 23 days of July averaged DM60.1bn, compared with a minimum requirement of DM59.7bn for the whole of the month, but on Monday the reserve figure was only DM55.5bn against DM59.1bn on Friday.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

NEW YORK (Lunchtime) — Treasury Bills and Bonds: [illegible] Two year 8.10; 30-year 8.56

July 25	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.95-8.05	7.95-8.10	7.95-8.10	8.05-8.20	8.20-8.40	8.00
Paris	10-10⅛	9⅞-10	9⅞-10	9⅞-10	9⅞-10⅛	9.50
Zurich	7⅞-8⅛	8¾-9	-	8¾-9	-	-
Amsterdam	7.62-7.75	8.06-8.12	-	8.20-8.25	-	-
Tokyo	7⅞-7⅞	7⅞-7⅞	-	7⅞-7⅞	-	-
Milan	11⅛-11½	11⅝-11¾	-	11¾-12	-	-
Brussels	8.75	9⅜-9⅝	-	9⅜-9⅝	-	-
Dublin	10⅝-10⅞	10⅞-10⅞	10⅞-10⅞	10⅞-10⅞	10⅞-10⅞	-

LONDON MONEY RATES

Jul 25	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15	15	15	15	14⅞	14½
Interbank Bid	13½	14¾	14⅞	14⅞	14¾	14⅜
Sterling CDs.	-	-	14⅞	14⅞	14⅞	14⅞
Local Authority Deps.	14⅞	14⅞	14⅞	14⅞	14⅞	14⅜
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15	14⅞	14¾	14½	-	-
Company Deposits	-	-	14⅞	15	14⅞	14⅞
Finance House Deposits	-	-	15	15	14⅞	14⅝
Treasury Bills (Buy)	-	-	14⅞	14⅞	-	-
Bank Bills (Buy)	-	-	14⅞	14⅝	13⅞	-
Fine Trade Bills (Buy)	-	-	15⅜	14⅞	14⅞	-
Dollar CDs.	-	-	8.03	8.03	8.05	8.15
SDR Linked Dep. Offer	-	-	8⅞	9	9⅛	9⅛
SDR Linked Dep. Bid	-	-	8¾	8⅞	9	9⅛
ECU Linked Dep. Offer	-	-	9⅞	10⅛	10⅜	10⅜
ECU Linked Dep. Bid	-	-	9¾	10	10⅛	10⅛

Treasury Bills (sell): one-month 14⅞ per cent; three months 14⅞ per cent; six months 13⅞ per cent; Bank Bills (sell): one-month 14⅝ per cent; three months 14⅞ per cent; Treasury Bills; Average tender rate of discount 14.3188 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 29, 1990. Agreed rates for period July 25, 1990 to August 25, 1990, Scheme I: 15.84 p.c., Schemes II & III: 16.25 p.c. Reference rate for period June 1, 1990 to June 29, 1990, Scheme IV&V: 15.025 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from July 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9, 1989. Deposits withdrawn for cash 5 per cent.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE US TREASURY BOND FUTURES OPTIONS; LIFFE BUND FUTURES OPTIONS; LIFFE EUROMARK OPTIONS; LIFFE EURODOLLAR OPTIONS; LIFFE SHORT STERLING OPTIONS; LONDON (LIFFE); CHICAGO; PHILADELPHIA SE £/$ OPTIONS: [illegible]

CAC-40 FUTURES (MATIF) Stock Index

	Open	Close	Change	High	Low	Open Int.
July	2005.0	1996.0	-0.5	2005.5	1994.0	3,983
August	2015.0	2008.0	+7.0	2018.5	2008.0	2,709
September	2026.0	2026.0	+15.0	2026.0	2026.0	260
December	-	-	-	-	-	0

Estimated volume 3,790 Total Open Interest 6,952

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	NatWestminster	15
Adam & Company	15	Cyprus Popular Bk	15	Northern Bank Ltd	15
Allied Trust Bank	15	Dunbar Bank PLC	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Duncan Lawrie	15	Provincial Bank PLC	16
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe Bank Ltd.	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc.	16½	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bank	15	Westpac Bank Corp.	15
Benchmark Bank	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk. of London Plc	15	Mount Banking	15		
Co-operative Bank	*15	Nat Bk. of Kuwait	15		

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MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

JOTTER PAD

CROSSWORD

No.7,299 Set by VIXEN

ACROSS
1 Make much of top men joining firm (6)
4 Begin to approach outside people with a note (8)
9 Ruined perhaps, but used to that (6)
10 Mount really first-class horse (8)
12 They'll call for a show of hands to clarify things (8)
13 Daren't make changes – might get fired (6)
15 Many in a Parisian street appear inelegant (4)
16 An expert teacher of history (4,6)
19 Cutting into capital (10)
20 Attack in a most abominable way (4)
23 Packer in a hole? (6)
25 Plain diet with fine results (8)
27 Profit is the attraction (8)
28 Father maybe ensuring page a payment for accommodation (6)
29 Interfering with drainage could be a bloomer (8)
30 Quarters in general finding a tenant (6)

DOWN
1 A sailing ship – could be a cutter (7)
2 A server of course (4,5)
3 This is sickening stuff! (6)
5 Duck enclosure without fencing (4)
6 Matter of great significance (8)
7 One is a racket maker (5)
8 A builder giving direction to a clerk (7)
11 Strives for discipline in ocean-going craft (7)
14 Limited some of the best in tedious fashion (7)
17 Test a tin's contents for poor quality (9)
18 A sporting judge about to enter the Church, not at all worried (8)
19 Needlework offered by college-head in charming environs (7)
21 Inspire to brew herb-tea (7)
22 A bad sailor in the main (6)
24 A measure taken over the queen's post (5)
26 Giving a good man one drink (4)

Solution to Puzzle No.7,298

KNICKERBOCKERS / TACIT POMANDERS / BRAVADO EPISTLE / EVICT APPARATUS / PIECEMEAL ECLAT / SOURCES EXAMPLE / EXTRAVERT ALOFT / SCATTERBRAINED

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

GERMANY (continued)

ITALY

ITALY (continued)

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA

AUSTRALIA (continued)

HONG KONG

MALAYSIA

SINGAPORE

CANADA

TORONTO

Closing prices July 24

MONTREAL

Closing prices July 24

Total Sales 4,433,013 shares.

INDICES

NEW YORK

DOW JONES	July 24	July 23	July 20	July 19	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
φIndustrials	2922.28	2904.70	2961.14	2993.81	2999.75 (16/7)	2543.24 (30/1)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	90.56	90.91	90.94	91.08	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1137.96	1136.13	1159.31	1172.63	1212.77 (6/6)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	200.39	200.20	202.15	203.53	236.23 (2/1)	200.20 (23/7)	236.23 (2/1/90)	10.50 (8/4/32)

φDay's High 2939.60 (2961.39) Low 2866.83 (2833.17)

STANDARD AND POOR'S	July 24	July 23	July 20	July 19	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	355.79	355.31	361.61	365.32	368.95 (16/7)	322.98 (30/1)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	421.70	420.79	428.69	433.20	437.37 (16/7)	371.92 (30/1)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	27.83	28.05	28.51	28.83	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	194.45	194.22	197.65	199.38	201.13 (16/7)	178.43 (30/1)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	355.51	354.92	360.45	361.84	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	442.56	444.64	455.28	458.18	469.60 (16/7)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Jul 20	Jul 13	Jul 6	year ago (approx.)
Dow Industrial Div. Yield	3.64	3.62	3.71	3.47

	Jul 18	Jul 11	Jul 4	year ago (approx.)
S & P Industrial div. yield	2.87	2.90	2.92	3.17
S & P Indl. P/E ratio	17.29	17.13	17.08	12.85

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Dow Chemicals	3,439,900	52⅞	- 3¼
Student Ln	2,656,300	47⅞	- 2
Mesa Ltd P'ship	2,627,000	4⅞	+ ⅛
Exxon	2,457,700	50	+ 2⅛
Philip Morris	2,307,400	49⅞	+ ⅝
Wal-Mart Stores	2,177,400	32⅞	—
Fannie Mae	2,098,900	38⅞	- 1⅞
Chase Manhattan	1,949,600	19⅞	- ⅛
Gen Electric	1,895,700	73	+ ½
McDonalds	1,792,600	33¼	+ ⅛

TRADING ACTIVITY

† Volume (Millions)	July 24	July 23	July 20
New York	181.920	209.050	180.547
Amex	13.757	14.135	10.265
NASDAQ	160.505	168.879	174.577
Issues Traded	2,007	2,016	1,995
Rises	749	225	577
Falls	745	1,409	904
Unchanged	513	382	514
New Highs	25	13	51
New Lows	79	122	42

CANADA TORONTO	July 24	July 23	July 20	July 19	1990 HIGH	1990 LOW
Metals & Minerals	3289.12	3284.98	3310.92	3307.86	3453.05 (4/1)	2850.80 (23/4)
Composite	3547.64	3548.20	3577.68	3574.94	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1850.91	1852.48	1868.96	1865.43	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	July 25	July 24	July 23	July 20	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1591.5	1587.0	1598.4	1601.5	1713.7 (12/1)	1434.5 (30/4)
All Mining (1/1/80)	782.1	775.2	776.2	777.9	860.8 (5/1)	711.7 (2/7)
AUSTRIA						
Credit Aktien (30/12/84)	670.51	672.08	678.98	672.28	703.29 (19/3)	525.59 (2/1)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	6346.83	6312.13	(c)	6311.18	6599.43 (12/1)	5568.16 (26/2)
DENMARK						
Copenhagen SE (3/1/83)	386.82	385.99	387.58	388.39	388.39 (20/7)	352.96 (25/4)
FINLAND						
Unitas General (1975)	540.8	536.8	534.3	534.8	677.3 (25/1)	532.7 (17/7)
FRANCE						
CAC General (31/12/82)	533.78	530.98	534.22	536.89	564.62 (30/5)	482.94 (26/2)
CAC 40 (31/12/87)	1998.58	1995.61	1990.06	2030.60	2129.32 (20/4)	1800.32 (26/2)
GERMANY						
FAZ Aktien (31/12/58)	818.21	818.31	825.81	826.53	832.32 (19/7)	732.71 (24/1)
Commerzbank (1/12/53)	2354.2	2355.90	2376.40	2386.40	2414.0 (3/4)	2151.5 (24/1)
DAX (30/12/87)	1920.25	1921.16	1938.06	1947.43	1968.55 (30/3)	1756.41 (24/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3528.54	3495.87	3559.89	3540.43	3559.89 (23/7)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1636.36	1643.23	1644.13	1664.22	1893.10 (22/1)	1582.61 (2/5)
ITALY						
Banca Com. Ital. (1972)	725.26	726.93	737.06	745.45	763.52 (14/6)	646.73 (26/2)
JAPAN						
Nikkei (16/5/49)	31701.27	31702.46	31894.79	32421.52	38712.88 (4/1)	28002.07 (2/4)
Tokyo SE (Topix) (4/1/68)	2307.31	2304.59	2329.92	2363.43	2867.70 (4/1)	2058.82 (5/4)
2nd Section (4/1/68)	4380.76	4329.23	4360.11	4399.56	4477.16 (16/7)	3313.92 (5/4)
MALAYSIA						
KLSE Composite (4/4/86)	627.04	625.23	(c)	625.79	631.13 (17/7)	518.58 (2/5)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	269.2	267.9	268.7	271.9	271.9 (20/7)	240.1 (26/2)
CBS All Shr (End 1983)	200.5	199.5	200.1	202.5	206.3 (3/1)	184.2 (26/2)
NORWAY						
Oslo SE (Ind) (2/1/83)	868.77	866.37	865.88	862.39	868.77 (25/7)	781.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	888.47	886.12	882.08	883.16	1160.70 (21/3)	740.31 (6/6)
SINGAPORE						
SES All-Singapore (2/4/75)	444.47	440.95	444.74	443.03	446.87 (16/7)	401.34 (30/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1602.0	1547.8	1532.0	1501.0	2230.0 (16/1)	1322.0 (20/6)
JSE Industrial (28/9/78)	3013.0	2978.0	2955.0	2948.0	3211.0 (6/2)	2794.0 (25/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	685.27	679.67	681.38	694.64	928.82 (4/1)	679.67 (24/7)
SPAIN						
Madrid SE (30/12/85)	301.67	301.55	299.98	305.17	309.74 (16/7)	248.17 (2/4)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	1307.7	1305.2	1315.6	1329.6	1329.9 (5/7)	1127.20 (2/4)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	813.3	809.8	818.9	827.1	845.5 (13/7)	737.6 (27/3)
TAIWAN**						
Weighted Price (30/6/66)	5321.64	5271.61	4991.42	5294.39	12495.34 (10/2)	4924.55 (5/7)
THAILAND						
Bangkok SET (30/4/75)	1143.78	1130.86	1133.54	1131.44	1143.78 (25/7)	760.39 (1/2)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	534.2	526.8	532.9	571.0 (4/1)	460.3 (2/4)

**Saturday July 21: Taiwan Weighted Price: 5299.56. Korea Comp Ex. 686.69

‡ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday July 25 1990

	Stocks Traded	Closing Prices	Change on day
Mitsui Mng&Sml	24.3m	887	+9
Nippon Oil	14.3m	1,440	-40
Mitsubishi Paper	12.6m	985	+65
Nissan Cnstrctn	6.5m	1,680	+70
Teikoku Oil	6.2m	1,340	-30
Nippon Steel	5.5m	528	-6
Fuji Heavy Ind	4.9m	783	+12
Honshu Paper	4.3m	3,510	+80
NKK	4.1m	542	-13
Mitsubishi Oil	4.0m	1,320	-20

4pm prices July 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	20⅛	Bercly s			6	218	28⅞	28	28	+ ⅛
[illegible]	23	BarB pr2.78		11.		66	24⅜	24⅜	24⅜	+ ⅛
[illegible]	23	BarB pf2.31		9.7		127	23¾	23½	23¾	− ⅛
[illegible]	24¼	BarB pfC.48e		2.0		286	24⅞	d24⅝	24⅞	+ ⅛
[illegible]	12⅞	Bard	.44	2.8	20	898	15⅛	15	15⅛	
[illegible]	25⅛	BarnGp	1.40	5.1	16	3	27½	27½	27½	
[illegible]	29½	Barnett	1.32	4.1	10	318	32⅛	32	32	− ⅛
[illegible]	7⅞	Baroid	.20	1.6	42	2462	13	12½	12⅞	+ ⅛
[illegible]	14⅛	Bass n	2.18e	11.	12	237	20	19⅞	20	
[illegible]	10⅛	BatMt	.10	.9	34	4975	11⅝	11⅛	11⅝	+ ⅛
[illegible]	62⅛	Bausch	1.32	1.9	17	329	70⅞	70	70⅞	+ ⅛

[illegible]

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

Sales figures are unofficial Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

2pm prices July 25

[illegible]

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NASDAQ NATIONAL MARKET

2pm prices July 25

[illegible]

PERSONAL COMPUTERS & SOFTWARE

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FINANCIAL TIMES

Thursday July 26 1990

AMERICA

Dow edges upwards after trading in a tight range

Wall Street

ACTIVITY in the equity market remained nervous yesterday and the major indices traded in tight ranges with no consistent pattern to buying and selling, *writes Janet Bush in New York.*

At 1.30 pm, the Dow Jones Industrial Average was 4.21 higher at 2,926.73 on relatively active volume of 108m shares. The Dow had gained 17.58 on Tuesday in a late surge to 2,922.28.

Among other indices, the Standard & Poor's 500 was 0.81 up at 356.60 at yesterday's midsession and the Nasdaq Composite index of over-the-counter stocks regained some of the ground lost in the first two sessions of this week, rising 2.84 to 445.40.

There appeared to be little reaction to news of a much larger-than-expected 3.2 per cent drop in factory orders for durable goods in June. Orders were weak, even taking out the key defence and transportation orders components, and gave a mild boost to the ailing Treasury bond market which stood ¼ point higher at the long end.

Oil stocks continued to feature. They were strong on Tuesday amid heightened tension in the Middle East and continuing disputes about crude oil production within Opec, and the three oil stocks in the Dow accounted for about 13 points of the 17.82 advance on Tuesday.

The sector went into reverse yesterday, with Mobil $⅝ lower at $66⅝ and Chevron down $⅞ at $77⅞. However, this was well above earlier lows and accounted for some of the recovery in the Dow which had stood about 11 points down in morning trading.

Strong technology stocks offset weak oil stocks. In spite of reporting a loss of $256.7m or $2.11 a share in the second quarter after a $400m charge for restructuring, Digital Equipment rose $⅝ to $76½.

Among other technology stocks, Compaq Computer jumped $1⅛ to $59⅛, Motorola gained $1⅛ to $79⅝ and IBM rose $⅝ to $115⅛.

Du Pont, the largest US chemicals company, gained $1 to $39⅛ after reporting second-quarter net income of $1.02 a share, up slightly from $1 a share a year ago.

Gerber Scientific dropped $2⅛ to $10⅞ after the company said that it expected earnings for the six months ended in October to be significantly lower than a year earlier.

Citizens & Southern gained $⅛ to $25¼ and Sovran Financial jumped $1 to $30⅞ on the news that the Federal Reserve had approved a merger between the two companies.

General Instrument dropped $⅝ to $44⅜. The company, which has agreed to a $44.50-a-share buy-out from Forstmann, Little, said that one of the two third parties to request confidential financial information since the Forstmann offer did not intend to make a competing bid.

Honeywell gained $1⅜ to $104⅝ after the company said that it expected to get final board approval late in the third quarter for the planned spin-off of its defence and marine systems business.

Canada

TORONTO stocks held their position at midday after a firm opening on the strength of oil and gold shares. The composite index gained 9.8 to 3,557.4 on volume of 12.9m shares. Rises led falls by 219 to 119.

The firmer bullion price boosted gold shares. Corona rose C$⅛ to C$7⅜, Lac Minerals gained C$¼ to C$11½, American Barrick firmed C$⅝ to C$24⅛ and Hemlo Gold added C$⅛ to C$13⅛.

Hong Kong remains in superpowers' shadow

The bull market is vulnerable to Chinese moves and the US economy, says John Elliott

MRS Margaret Thatcher, the British Prime Minister, has managed this week to dent the Hong Kong stock market's bull run. Her decision to give a new job in the Treasury to Mr Francis Maude, the Foreign Office minister with special responsibility for the Colony, a few hours before he was to arrive in Peking earlier this week for major talks, jangled nerves. Prices dropped sharply on Tuesday in the wake of Wall Street's Monday falls.

Yesterday that was partially shrugged off and the market retrieved some ground, mainly because China's leaders were being nice to Mr Maude but also because Wall Street had begun to improve. The local Hang Seng index, which dropped 64.02 points on Tuesday, recovered 24.67 yesterday to close at 3,520.54.

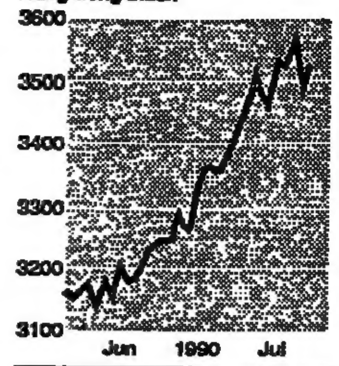
The significance of the two days' events is that they graphically demonstrate how Hong Kong's stock market is highly vulnerable to two factors. One – and the most sensitive – is what is said and done in China. The other is the US economy, because of its affect on Hong Kong's economy, coupled with the performance of Wall Street.

This vulnerability will remain, even though the local mood has improved significantly in the past couple of months.

Mr John Mulcahy, director of research at Peregrine Brokerage, says: "The main change in the market is that it is finding it much easier to find good news than bad news; before it was harder to find good news and much easier to find the bad." This partially explains the run of the past few months which has taken the index up by more than 500 points since mid-March.

China's abrasiveness towards Hong Kong has softened, and there have also been signs that its hard-line leaders' political stance and economic austerity programme are easing. Hong Kong's own economic situation, government economists believe, is bottoming out – although trade figures published last night show a decline last month in domestically produced exports.

Hong Kong



These developments, coupled with frenetic activity by Taiwanese and other punters in second and third-rank stocks a few weeks ago, brought the market to life and improved liquidity. International institutions followed on, increasing their involvement in a market where they were underweight.

With a price/earnings ratio currently of about 10, and corporate profit rises of 16 to 17 per cent expected early next year, Hong Kong is still seen as undervalued by many analysts. Most, however, acknowledge that it is becoming less easy to pick obvious bargains and many fund managers are wary about unforeseen problems.

The immediate focus now is whether the Hang Seng index will manage to break through 3,800 this year. Many analysts forecast that it will, although some expect to have to wait longer.

Mr James Osborn, an assistant director at Barings, which is at the bullish end of the brokerage spectrum, says: "I think a new high of around 3,600 will be established soon, and that the index will then move on to 3,800 by the end of the year and maybe 4,200 when the corporate results come in from March to May."

That would take the index well above its most important target – the all-time high of 3,949.73, which was reached on October 1, 1987, before the world markets' crash brought stocks tumbling down.

Three weeks ago it broke another important barrier when it passed 3,309.64, its post-crash peak. It had reached this high on May 15 last year, just before China's student demonstrations shattered nerves and pushed it down to a low of 2,093.61 on June 5, one day after the Chinese army started its crackdown in Tiananmen Square.

For continued upward movement, the market needs quiet in China and tolerable news about the US economy, plus proof that the sluggishness in the Hong Kong economy really is ending. A blessing from China for Hong Kong's HK$127bn (US$16.4bn) infrastructure plans, including a controversial new international airport, would be an important catalyst.

It is clear that, while the market has at last shrugged off the despair of the past year, it is still highly susceptible to outside pressures and is paranoid about anything that is said or done in China. That makes occasional volatility inevitable.

ASIA PACIFIC

Nikkei steadies as attention turns to the yen

Tokyo

SHARE PRICES closed practically unchanged yesterday after a day of listless trading which saw currency concerns take over from interest rate jitters, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei average rose more than 100 points in early trading, but this initial strength soon petered out and the index ended a net 1.19 down at 31,701.27. The intraday high was 31,845.90 and the low was 31,650.70. Volume remained low, at 350m shares, hardly changed from Tuesday.

The Topix index closed 2.72 up at 2,307.31 and gains outnumbered losses by 541 to 388, while 194 issues were unaltered. The second section enjoyed a strong rebound of 51.53 to 4,380.76. In London, the ISE/Nikkei 50 index rose 6.97 to 1,727.42.

Observed Mr Christopher Leighton at Schroder Securities: "The main problem for the market is the currency." With tension rising in the Middle East, the dollar was likely to rise further. Meanwhile, the interest rate situation was not clear. Although fears of an immediate rise in the official discount rate had subsided, investors were still concerned about the prospect of higher rates in the future.

Sharp rises in certain issues at the opening suggested there was considerable early support from professionals, said Mr Leighton, although those gains were wiped out again almost immediately.

The larger number of rises to declines yesterday and the strength seen in certain issues offered some hope for the market. High-priced blue chip issues, for example, enjoyed a revival of interest. Sony climbed Y210 to Y8,930 and Fuji Photo Film Y60 to Y4,700.

Paper shares were helped by special incentives. Mitsubishi Paper Mills was pursued on strong sales of its disposable cameras and was third in volume with 12.5m shares, advancing Y65 to Y985. Mitsubishi Paper's rise was also supported by the advance of Honshu Paper, which has risen strongly on talk that it was being bought by a speculative group. Honshu Paper added Y50 at Y3,510.

Mitsui Mining and Smelting put on Y9 to Y867 and topped the actives with 24.3m shares. The stock rose as interest turned to non-ferrous metals in response to a gold rally and on talk of speculative buying.

Oils, strong on Tuesday on expectations of higher oil prices, succumbed to profit-taking. Nippon Oil, second in volume with 14.3m shares, lost Y40 to Y1,440.

Large-capital issues that are sensitive to interest rates continued to ease. NTT fell to another all-time low of Y1.02m after it hit Y1.04m on Monday.

In Osaka, interest in high-technology issues supported the market's first rise in five trading days. The OSE average gained 81.11 to 35,622.19 on volume of 36m shares, up from Tuesday's 28m. Nintendo, the maker of video games, rose Y1,000 to Y28,400. Demand for the company's new game to be introduced in the autumn was expected to be strong.

Roundup

TUESDAY'S BUDGET disappointed New Zealand, but most other leading Pacific Rim markets made modest rises after Wall Street's overnight gain.

NEW ZEALAND fell after the previous day's Government Budget reduced hopes of lower interest rates. The Barclays index lost 19.92 to 1,828.15. Turnover was moderate at NZ$15m, compared with Tuesday's NZ$17m.

Stocks that are listed in both New Zealand and Australia were hardest hit.

AUSTRALIA rose tentatively, with gold and resource shares leading gains. The All Ordinaries index firmed 4.5 to 1,591.5 in turnover of A$161m, up from Tuesday's A$153m.

Elders IXL declined 6 cents to A$1.69 on volume of 4.5m shares after Carter Holt Harvey failed to win initial approval to take over Elders Resources NZFP. Burns Philp lost another 6 cents to A$3.14 amid concern that it might be liable for its subsidiary, Burns Philp Trustee Co, which is involved with the failed Estate Mortgage trusts.

SINGAPORE attracted renewed buying interest and the Straits Times Industrial index rose 7.18 to 1,561.24. Volume was boosted to 82m shares by a block deal of 15m shares in JC-MPH Warrants 1995, which added 2 cents at 36 cents; 50m shares were traded on Tuesday.

Malayan Credit gained 7 cents to S$2.17 on 4.5m shares, reflecting takeover speculation, while Hotel Properties was suspended amid rumours that a leading shareholder would place part of its stake.

BANGKOK hit a record high on hopes of good first-half results from banks and financial companies. The SET index moved up 12.92 to 1,143.78.

TAIWAN built on Tuesday's 5.6 per cent advance as the weighted index added 50.03 at 5,321.64. Profit-taking and worries about a potential conflict between Iraq and Kuwait, from which Taiwan imports much of its oil, had sent the index down almost 170 points earlier in the day. Turnover was T$73.4bn, up from T$60bn.

SEOUL rose after three days of declines which had dragged the market to its lowest level since late-1988. The composite index recovered 5.60 to 685.27. Spurring the rally were hopes that the capital market would be opened to foreigners earlier than expected.

BOMBAY moved ahead 7 per cent to a record high on the first day of trading this week, with the BSE index adding 67.24 at 1,007.97. The start of the new Account and a relaxation of trading curbs lifted shares. Associated Cement rose Rs130 to Rs940.

SOUTH AFRICA

A RISE in the bullion price through $370 sparked another rally in Johannesburg gold shares. The JSE Gold index surged 55 to 1,602 and the overall index jumped 64 to 3,170. Vaal Reefs ended R11 higher at R298.

EUROPE

Bourses slip from highs as oil stocks feature again

MOST BOURSES began well yesterday but later slipped from their day's highs, with oil stocks continuing to focus attention in several markets, *writes Our Markets Staff.*

FRANKFURT was boosted at the start by encouraging first-half figures from Commerzbank, but ended mixed after profit-taking set in. The DAX index came off an early high of 1,932.47 to close 0.91 lower at 1,920.25. The FAZ index, calculated at midsession, lost 0.1 to 818.21. Volume slipped to DM5.7bn from DM6.3bn.

Commerzbank, which reported a 17.5 per cent increase in first-half partial operating profit and reiterated that a rise in the 1990 dividend was possible, closed DM2.30 better at DM295.80.

Elsewhere, Daimler jumped DM9 to DM858 on rumours, denied by the company, that it was planning to bring forward its Tokyo listing, scheduled for September. It was the most traded stock with 578,310 shares changing hands.

PARIS again focused on oil stocks, which rose strongly in early trading but finished off their day's highs on signs of an improvement in relations between Kuwait and Iraq. Elf Aquitaine gained FFr2 to FFr710, after reaching a high of FFr724 with 269,230 shares traded, and Total rose FFr3 to FFr710, after touching FFr725.

"Short-term sentiment is the rule of the day in Paris at the moment," said Mr Andrew Burke-Smith of Citicorp. He explained that optimism about interest rates was providing a floor for the market around the 2,000 level on the CAC 40, while the fragility of Wall Street and Tokyo was keeping a lid on gains.

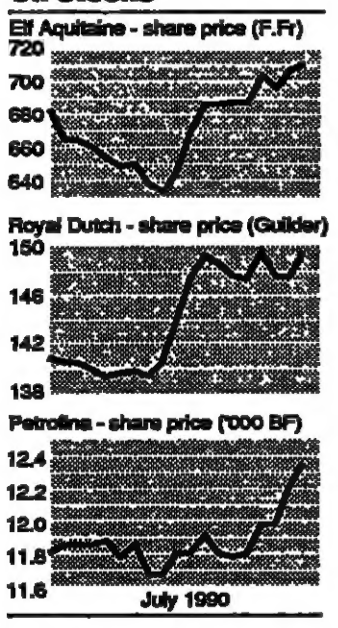
The short-term view was apparent, he said, in a FFr3.80 rise in Thomson-CSF to FFr108.20 with 301,800 shares traded; the stock was sought on expectations of a military conflict in the Middle East.

Lafarge Coppée gained FFr11.40 to FFr485.50, recovering from the weakness that followed poor results from its US subsidiary last week. Eurotunnel continued to advance, adding another FFr1.75 to FFr55.15 with 1.6m shares changing hands.

The CAC 40 edged up 2.97 to 1,998.58, in light turnover estimated at FFr1.7bn.

MILAN was resigned to the likelihood that Fiat would continue to underperform the market following the analysts' meeting on Tuesday. Fiat ordinary shares fell L15 to L8,740. The Comit index slipped 1.67 to 725.26.

Oil stocks



Fiat said it expected flat 1990 net profits, after an 8 per cent fall pre-tax profit in the first five months. But analysts pointed out that the figures did not include June, when industry data showed that Fiat's car sales, its core business, had fallen sharply. They said that Fiat's first-half results, therefore, expected in September, would show a decline of at least 10 per cent in pre-tax profits. Some analysts were now cutting their dividend forecasts, having already slashed their earnings forecasts after the recent profit warning from the company.

AMSTERDAM was mixed in thin trading after a firm opening following Wall Street's partial recovery on Tuesday. The CBS Tendency index fell 0.2 to 120.3. Royal Dutch added Fl 1.70 to Fl 149.30 amid continued bullishness over world oil prices, while KLM, which said its margins were under pressure, fell 30 cents to Fl 33.40.

ZURICH inched higher in moderate trading, with the Crédit Suisse index gaining 0.6 to 662.9. Jacobs Suchard bearers rose in a thin market, adding SFr70 to SFr8,360.

Hilti, the Liechtenstein-based construction company which gave an unexpected profit warning on Monday, troubled some analysts as company officials who would have been able to elaborate on the forecast were away on holiday. Hilti participation certificates, which lost SFr39 to SFr690 on Tuesday, sank to a low of SFr670 yesterday before closing unchanged at SFr690.

MADRID's gains were trimmed as New York fell in early trading, with the general index ending up 0.12 at 301.67 after a morning session close of 302.62. Banco Central's first-half profits rise of 71 per cent, compared with expectations of 15 per cent, produced little reaction in its share price, which fell Pta30 to Pta5,020.

OSLO continued to rise on the higher oil price, with the all-share index adding 2.33 to 641.92 in turnover of NKr443m. Norsk Hydro, which announces results today, rose NKr1 to NKr204 after reaching NKr208.

BRUSSELS advanced but finished off its highs as Wall Street weakened in early trade. Petrofina, the oil company, gained BFr125 to BFr12,350, after a day's peak of BFr12,500.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY JULY 24 1990								MONDAY JULY 23 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (80)	147.89	−0.4	120.11	138.73	124.44	125.26	−0.8	5.56	148.54	120.90	139.39	125.73	126.21	158.31	125.85	138.78
Austria (19)	279.13	−1.3	226.70	261.85	234.86	235.85	−1.4	1.23	282.74	230.13	265.32	239.31	239.21	285.63	193.15	126.01
Belgium (61)	157.41	+0.7	127.84	147.66	132.45	129.46	+0.3	4.47	156.27	127.20	146.63	132.26	129.10	160.02	132.11	131.25
Canada (119)	139.32	+0.0	113.15	130.68	117.22	116.62	+0.0	3.48	139.26	113.35	130.67	117.86	116.67	153.81	130.37	148.44
Denmark (33)	272.63	−0.1	221.42	255.75	229.41	229.16	−0.4	1.26	272.98	222.19	256.16	231.05	230.19	272.98	236.69	208.29
Finland (26)	136.06	+0.3	110.50	127.64	114.49	108.63	−0.2	2.52	135.59	110.36	127.24	114.76	108.86	152.29	129.99	140.84
France (124)	161.77	+1.1	131.38	151.74	136.11	137.73	+0.5	2.98	160.07	130.29	150.20	135.47	137.09	168.85	141.69	127.07
West Germany (92)	141.97	−0.3	115.30	133.20	119.46	119.46	−0.8	1.89	142.33	115.85	133.58	120.47	120.47	142.33	122.05	95.50
Hong Kong (48)	145.00	−1.7	117.76	136.01	122.01	144.53	−1.7	4.34	147.49	120.05	138.40	124.84	147.00	147.49	112.24	104.82
Ireland (17)	189.88	+0.3	154.21	178.12	159.77	161.61	−0.1	2.71	189.29	154.07	177.62	160.21	161.84	198.57	172.72	149.52
Italy (96)	106.32	−0.8	86.34	99.72	89.46	94.05	−1.4	2.50	107.14	87.21	100.53	90.68	95.36	109.28	91.85	89.47
Japan (454)	147.79	−1.2	120.03	138.63	124.37	138.63	−1.2	0.61	149.51	121.69	140.30	126.56	140.30	197.28	124.40	183.14
Malaysia (35)	249.83	+0.0	202.90	234.35	210.22	260.42	+0.1	2.08	249.85	203.36	234.44	211.47	260.24	250.88	204.15	169.09
Mexico (13)	547.77	−1.7	444.87	513.84	460.93	1720.35	−1.8	0.30	557.35	453.65	523.01	471.74	1751.67	557.35	324.53	268.35
Netherland (43)	146.56	+0.2	119.03	137.48	123.32	121.97	−0.3	4.63	146.22	119.02	137.21	123.76	122.33	147.04	130.43	126.27
New Zealand (17)	68.45	−1.9	55.60	64.22	57.60	61.18	−1.8	7.17	69.80	56.82	65.51	59.08	62.31	75.36	59.57	67.33
Norway (23)	254.01	+0.4	206.29	238.28	213.74	215.57	+0.1	1.47	253.03	205.95	237.44	214.17	215.25	254.01	202.34	188.78
Singapore (25)	205.72	−0.5	167.07	192.98	173.10	172.16	−0.3	2.10	206.81	168.33	194.07	175.04	172.74	209.24	179.70	167.58
South Africa (60)	185.14	+1.5	150.36	173.67	155.79	157.78	+0.7	3.67	182.45	148.51	171.21	154.42	156.71	251.39	170.00	146.80
Spain (42)	181.40	+1.0	147.33	170.17	152.64	136.60	+0.7	4.02	179.52	146.12	168.47	151.95	135.66	182.25	132.84	151.36
Sweden (34)	228.22	−0.8	185.35	214.09	192.04	199.41	−0.9	2.03	230.01	187.21	215.84	194.68	201.23	232.74	173.89	179.31
Switzerland (68)	106.20	−0.6	86.25	99.63	89.37	90.53	−1.6	2.28	106.87	86.99	100.29	90.46	91.96	109.77	88.75	86.83
United Kingdom (303)	173.96	+0.3	141.28	163.17	146.36	141.28	+0.1	4.82	173.37	141.11	162.67	146.73	141.11	176.18	139.87	152.61
USA (539)	143.54	+0.1	116.58	134.66	120.79	143.54	+0.1	3.39	143.41	116.73	134.58	121.39	143.41	148.95	130.61	135.85
Europe (981)	156.00	+0.2	126.70	146.34	131.28	128.82	−0.2	3.56	155.71	126.74	146.12	131.80	129.23	156.66	135.57	126.85
Nordic (116)	217.58	−0.3	176.71	204.11	183.09	179.01	−0.6	1.69	218.32	177.70	204.87	184.78	180.04	218.32	185.01	171.14
Pacific Basin (659)	147.57	−1.1	119.85	138.44	124.18	138.08	−1.2	0.93	149.26	121.49	140.07	126.34	139.72	192.75	124.63	178.48
Euro−Pacific (1640)	151.40	−0.6	122.96	142.01	127.39	135.05	−0.8	2.04	152.29	123.95	142.89	128.89	136.12	174.18	130.35	157.94
North America (658)	143.19	+0.1	116.29	134.33	120.51	141.76	+0.1	3.39	143.07	116.45	134.26	121.11	141.65	148.43	131.02	136.39
Europe Ex. UK (678)	143.66	+0.1	116.67	134.79	120.91	121.10	−0.5	2.74	143.53	116.83	134.71	121.51	121.68	143.74	124.81	110.62
Pacific Ex. Japan (205)	144.14	−0.9	117.06	135.29	121.30	128.05	−1.0	4.80	145.47	118.40	136.53	123.14	129.40	146.72	122.53	122.77
World Ex. US (1832)	151.56	−0.5	123.09	142.18	127.53	135.06	−0.7	2.10	152.38	124.03	143.00	128.98	136.08	173.77	131.30	157.50
World Ex. UK (2068)	145.03	−0.4	117.78	136.05	122.05	137.38	−0.5	2.26	145.62	118.53	136.66	123.27	138.12	162.00	130.80	148.35
World Ex. So. Af. (2311)	147.36	−0.3	119.68	138.25	124.01	137.59	−0.5	2.52	147.87	120.36	138.77	125.17	138.24	161.84	131.95	148.73
World Ex. Japan (1917)	148.96	+0.1	120.96	139.75	125.36	137.43	−0.1	3.52	148.82	121.13	139.66	125.98	137.56	151.59	134.62	132.49
The World Index (2371)	147.59	−0.3	119.87	138.46	124.20	137.73	−0.5	2.53	148.08	120.53	138.96	125.35	138.37	162.05	132.25	148.72

Constituent change 25/7/90: Name change: Eternit (Financiere) to Etex (France). Latest prices were unavailable for this edition.

BUSINESS LAW

The marketing of investments

By John Breslin

ONE OF the purposes of the Financial Services Act 1986 (FSA) was to amend and consolidate the law on the marketing of investments.

The FSA envisages two types of marketing activity: cold calling and advertising. The Act regulates the publication of "investment advertisements". These are broadly defined as any advertisement which is likely to lead either directly or indirectly to a person entering into an investment agreement, buying or selling an investment, or exercising rights under an investment to do so.

An advertisement urging persons to do nothing is not caught. Accordingly, a communication by, for example, a trade union urging shareholders not to sell shares to a predator would not be an investment advertisement.

Only an authorised person under the FSA may issue investment advertisements. In doing so he will be subject to the rules of the Self Regulating Organisation (SRO) to which he belongs, which govern the manner in which he communicates with the public.

Many investment advertisements will therefore need to be comprehensively verified and will bear a statement that the issuer is authorised under FSA. Any unauthorised person who wishes to issue an investment advertisement will need to have it approved by an authorised person.

Depending on the type of document and on the rules of the SRO to which the authorised person belongs, the authorised person may not be able to approve the advertisement until its contents have been verified.

However, some advertisements may not need to be verified. For example, The Securities Association (TSA) rules allow a TSA member to approve without verification an investment advertisement proposed to be sent to "business customers" as defined (very broadly, authorised institutions or large companies) or to which the Takeover Code applies.

The definitions used in the FSA have resulted in the regulatory net being cast rather widely and particular problems have arisen as a result. Documents issued by an unauthorised person could well require approval by an authorised person even though the document appears to the informed layman to be the last thing one would think of as an investment advertisement.

Take, for example, the typical corporate advertisement. Many companies, quite naturally, wish to draw attention to a particular expertise they may have, or to the fact that they have been enjoying a successful period of trading. The FSA effectively draws a distinction between a company advertising its products or expertise, and advertising itself as a successful venture and accordingly (reading between the lines) a good investment.

This is a fine, and often difficult, distinction to make. Some are more prepared than others to regard a piece of company promotion as a subliminal invitation to purchase shares in it. However, the legislation is widely drafted and so care must be taken.

What about a newspaper which actually publishes the advertisement to the order of another person? The FSA provides that the newspaper will have a defence if it can show that it believed, on reasonable grounds, either that the person to whose order the advertisement was issued was an authorised person, or the contents of the advertisement were approved by an authorised person, or the advertisement was exempt.

A recent High Court decision confirmed many City lawyers' worst fears about the implications of marketing by unauthorised persons. In *SIB v Pantell SA* * the Securities and Investment Board (SIB) brought an enforcement action against an unauthorised person promoting shares in a US company in the UK.

The court granted the relief sought by the SIB but also ruled that an investment advertisement could amount to the carrying on of investment business in the UK. Pantell was carrying on investment business in the UK by *offering* to deal, or arrange deals, in investments, or by dealing in investments in the UK by accepting clients' money.

The decision creates a significant problem. An unauthorised person can get over the hurdle of issuing an investment by getting it approved. But the Pantell case makes it clear that by issuing the advertisement the person may well be carrying on investment business, for example, by offering to deal in investments or giving investment advice through the medium of advertisements. Authorisation is required to do these things.

Obviously, by providing that unauthorised persons can, under certain circumstances, issue advertisements, the FSA does contemplate allowing an unauthorised person to issue an advertisement without having to go to the bother of becoming authorised. Indeed there are various exemptions which obviate the need for approval of an advertisement by an authorised person.

The principal exemptions are:

- Companies may communicate to their own members or creditors about investing in the company itself or in another group company. However, a company cannot write to such persons suggesting that they ought to invest in another company outside the group. In a takeover situation, therefore, a company may recommend an offer to its members without the approval of an authorised person only if it is a cash offer. If the consideration for the offer includes shares in a company outside the group then the document will need to be approved by an authorised person.
- Documents required or permitted under listing requirements (the Stock Exchange's Yellow Book), or extracts from such documents are also exempt. Given that a listed company is under an obligation to supply the Stock Exchange with all information necessary to prevent a false market in its shares, this is a relatively wide exemption. Interim and final results are accordingly also exempted.

Some doubt originally existed as to the status of a chairman's statement under this exemption. The DTI, in a guidance note, stated that the exemption extended to such statements. However, it pointed out that while one could reproduce documents required or permitted by the Yellow Book, one cannot paraphrase statements, or represent statistical information in a form different to that appearing in the original document, and still benefit from the exemption.

- Advertisements sent to persons deemed to be sufficiently expert to understand the risks are exempt. These include authorised persons, business investors (i.e. large companies), holders of special permissions, and individuals within such organisations whose job is to deal in investments for or manage investments of his employer.

Also included in this group are financial journalists. How those journalists then disseminate the information sent to them by virtue of the exemption will depend on the rules of the SRO to which their newspapers belong if they are authorised, or the limited exclusion in the FSA for the press.

An EC authorised investment business is permitted by the FSA to supply services in the UK by giving seven days notice to the SIB. It is then deemed to be authorised by the SIB and so will be governed by the SIB advertising rules in the promotion of its services. Little use has been made of this section. Most EC authorised businesses have opted to establish a branch, subsidiary or other strategic alliance in the UK.

However, the UK advertising rules will be of vital importance to EC businesses which wish to market their services in the UK once the Investment Services Directive (ISD) is implemented in the UK. The ISD allows EC authorised companies to do business in the UK by way of supplying services or by the establishment here of a branch without the need to be authorised in the UK.

The state in which the company is authorised (the home state) will be the main supervisor of the institution, especially with regard to its financial adequacy. The conduct of its business in the state where it supplies its services (the host state) will be governed by the host state, whether the institution chooses to establish a branch or supply services from the home state.

In respect of the supply of services, the host state rules most likely to be relevant will be its marketing (i.e. advertising) rules. One impact of 1992 may be that FSA rules will be judicially tested in a Community context if a person established in another member state seeks to argue that these rules impose an anti-competitive barrier to EC authorised companies who seek to market services in the UK under the ISD.

* *[1989] 3 WLR 398.*

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